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ABSTRACT

The results of an evaluation study of selected educational institutions and students participating in direct school lending under the Federal Insured Student Loan Program (FISLP) is presented. Proprietary schools, which as a group have had a history of high default rates, and institutions of higher education, which are becoming the primary disbursers of direct school loans, are examined. The study includes four objectives: to assess the attitudes and characteristics of current student borrowers who have received FISLP loans; to review administration policies and practices in their role as lenders; to examine the relationship between default on FISLP loans and the characteristics of past student borrowers of these loans; and to develop observations and recommendations on the policies and procedures of the FISLP that can strengthen its effectiveness. On-site visits were made to all eight direct proprietary lenders in the FISLP and 15 of their 39 schools, along with 16 institutions of higher education. Those interviewed were typically such administrators as financial aid officers, bursars, treasurers, vice-presidents for administration and finance, and corporate comptrollers. Among the concluding observations are: (1) the predominant factor in the students' enrollment decision is either the prospect of obtaining related employment or the school's reputation in their area of interest; (2) about 40 percent of the students felt that the availability of direct FISLP loans was important in their decision to enroll at their school; (3) nearly 70 percent of the students were satisfied with the amount of their loans and loan information; and (4) direct school lending is an important source of financial aid to students. Appendices include the questionnaire used for current in-school borrowers of FISLP, an interview guide used for reviewing the administrative practices of the schools, and the regression model analysis relating borrower characteristics and repayment status. (LC)

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STUDY OF
SELECTED EDUCATIONAL INSTITUTIONS
AND STUDENTS PARTICIPATING IN
DIRECT SCHOOL LENDING UNDER THE
FEDERAL INSURED STUDENT LOAN
PROGRAM

FINAL REPORT

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Contract No. 300-76-0514

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I - INTRODUCTION

- Evolution Of The Study
- Study Objectives And Scope
- Study Methodology
- Arrangement Of The Report

I - INTRODUCTION

This report presents the results of an evaluation study of selected educational institutions and students participating in direct school lending under the Federal Insured Student Loan Program (FISLP). This chapter discusses the evolution of the study, its objectives and scope, the study methodology, and the arrangement of the rest of the report.

EVOLUTION OF THE STUDY

A primary concern in the administration of the FISLP has been the rapid increase in loan defaults over the last several years, particularly on direct FISLP loans made by proprietary schools. Although default has reached significant levels, information on the attitudes and characteristics of borrowers, the administrative policies and practices of the schools, and the relationship of these matters to loan default is inadequate. Specifically, it is not clear whether the defaults are related to the characteristics and attitudes of the students or to the characteristics, policies, and procedures of the schools.

Information on the reasons for default has been generally inconclusive. On the basis of past studies and analyses, it has been inferred that the nonpayment of loans by students has been primarily due to factors related to the individuals, including demographic characteristics, patterns of posteducational employment, income, and the burden of other debts. The nature and extent of these relationships, however, are not precisely

understood. At the same time, the Federal Trade Commission hearings indicated a widespread view that the procedures by which proprietary schools select, recruit, and enroll students are also an important contributing factor. Others attribute default to the unsuitability of the courses given by the schools or to their ineffectiveness in administering FISLP loans.

The purpose of the study is to develop additional information on the attitudes and characteristics of the borrowers and on the practices of the schools associated with direct school lending under the FISLP. This project includes the study of two groups:

- Proprietary schools, which as a group have had a history of high default rates
- Institutions of higher education, which are becoming the primary disbursers of direct school loans.

The intent of the study is to assess the involvement of the schools and the student borrowers in the program and ultimately to develop conclusions that can be used to strengthen the effectiveness of the FISLP.

STUDY OBJECTIVES AND SCOPE

The study includes four specific objectives:

- To assess the attitudes and characteristics of current student borrowers at proprietary schools and institutions of higher education who have received direct FISLP loans from these schools
- To review the administrative policies and practices of proprietary schools and institutions of higher education in their role as direct lenders
- To examine the relationship between default on direct FISLP loans and the characteristics of past student borrowers of these loans at proprietary schools and institutions of higher education

- To develop observations and recommendations on the policies and procedures of the FISLP that can strengthen its effectiveness.

The proprietary schools segment of the study involves an in-depth assessment of the eight proprietary school lenders (listed in Exhibit I-1) that are both authorized and active as direct FISLP lenders. The institutions of higher education segment is a similar assessment of 16 of the 89 institutions of higher education that were authorized lenders as of July 1, 1979, and a limited assessment of the remaining 73 lenders. Exhibit I-2 lists the 89 lenders.

It should be noted that the eight proprietary school lenders lend to a total of 39 proprietary schools that are affiliated with them, as shown in Exhibit I-3. Five of them lend to single schools. ITT Educational Services, Inc., Bell and Howell Schools, Inc., and Katherine Gibbs Schools, Inc., lend, respectively, to 20, 7, and 7 affiliated schools. The scope of the study includes all eight lenders and some (but not all) of the schools affiliated with the three multischool lenders.

The study excludes proprietary schools and institutions of higher education (and their borrowers) that were once involved in the program but no longer have FISLP lending authority.

STUDY

METHODOLOGY

The methodology involved a parallel approach to the study of the proprietary schools and the institutions of higher education that are direct lenders under the FISLP. It consisted of on-site interviews with school administrators, on-site interviews with current student borrowers (using a standardized questionnaire), the gathering of various data at the schools, and meetings with organizations involved in the FISLP and other student loan programs.

PROPRIETARY SCHOOLS THAT
ARE AUTHORIZED AND ACTIVE AS
DIRECT LENDERS UNDER THE FISLP

<u>Proprietary School Lender</u>	<u>Location</u>
Bell and Howell Schools (DeVry Institute of Technology)	Chicago, Illinois
Coleman College	San Diego, California
Electronics Institute	Kansas City, Missouri
ITT Educational Services, Inc.	Indianapolis, Indiana
Katherine Gibbs Schools	New York, New York
Pacific College of Medical/ Dental Assistants	San Diego, California
Pittsburgh Institute of Aeronautics	West Mifflin, Pennsylvania
San Diego College of Medical/ Dental Assistants	San Diego, California

Note: Columbia Commercial College in Columbia, South Carolina, Control Data Schools (American Health and Life Insurance Company) in Baltimore, Maryland, and Wyoming Institute of Technology in Laramie, Wyoming, are authorized but presently inactive in making new FISLP loans.

INSTITUTIONS OF HIGHER EDUCATION THAT ARE AUTHORIZED
AS DIRECT LENDERS UNDER THE FISLP

<u>School</u>	<u>Location</u>
Abilene Christian College	Abilene, Texas
American International College	Springfield, Massachusetts
Amherst College	Amherst, Massachusetts
Austin College	Sherman, Texas
Baptist College of Charleston	Charleston, South Carolina
Bentley College	Waltham, Massachusetts
Boston University	Boston, Massachusetts
Bowman Gray School of Medicine (Wake Forest University)	Winston-Salem, North Carolina
Brandeis University	Waltham, Massachusetts
Brown University	Providence, Rhode Island
Carnegie-Mellon University	Pittsburgh, Pennsylvania
Clark University	Worcester, Massachusetts
Coe College	Cedar Rapids, Iowa
College of St. Thomas	St. Paul, Minnesota
College of the Holy Cross	Worcester, Massachusetts
Colorado College	Colorado Springs, Colorado
Cornell University	Ithaca, New York
Creighton University	Omaha, Nebraska
Cumberland College	Williamsburg, Kentucky
Curry College	Milton, Massachusetts
Daemen College	New York, New York
Dartmouth College	Hanover, New Hampshire
David Lipscomb College	Nashville, Tennessee
DePauw University	Greencastle, Indiana
Doane College	Crete, Nebraska
Drake University	Des Moines, Iowa
Duke University	Durham, North Carolina
Earlham College	Richmond, Indiana
Eastern Baptist College	Philadelphia, Pennsylvania
Embry-Riddle Aeronautical University	Daytona Beach, Florida
Franklin and Marshall College	Lancaster, Pennsylvania
Freed-Hardman College	Henderson, Tennessee
George Fox College	Newberg, Oregon
Georgetown University	Washington, D.C.
Gonzaga University	Spokane, Washington

<u>School</u>	<u>Location</u>
Goucher College	Towson, Maryland
Grace College	Winowa Lake, Indiana
Graceland College	Lamoni, Iowa
Harding College	Searcy, Arkansas
Harvard University	Cambridge, Massachusetts
Hastings College	Hastings, Nebraska
Johns Hopkins University	Baltimore, Maryland
Johnson and Wales College	Providence, Rhode Island
Keuka College	Keuka Park, New York
Lambuth College	Jackson, Tennessee
Massachusetts Institute of Technology	Cambridge, Massachusetts
Mount Holyoke College	South Hadley, Massachusetts
National College of Business	Rapid City, South Dakota
Northeastern Bible College	Essex Felis, New Jersey
Northwestern University	Evanston, Illinois
Princeton University	Princeton, New Jersey
Purdue University	West Lafayette, Indiana
Reed College	Portland, Oregon
St. Anselm College	Manchester, New Hampshire
St. Louis University	St. Louis, Missouri
Simpson College	Indianola, Iowa
Smith College	Northampton, Massachusetts
Southeastern College of the Assemblies of God	Lakeland, Florida
Southern Missionary College	Collegedale, Tennessee
Southwestern Adventist College	Keene, Texas
Southwestern at Memphis	Memphis, Tennessee
Stevens Institute of Technology	Hoboken, New Jersey
Trevecca Nazarene College	Nashville, Tennessee
Tufts University	Medford, Massachusetts
Tulane University	New Orleans, Louisiana
Union College	Barbourville, Kentucky
Union Saint Jean-Baptiste	Warren, Rhode Island
Union Theological Seminary	New York, New York
University of Alabama	Tuscaloosa, Alabama
University of Chicago	Chicago, Illinois
University of Denver	Denver, Colorado
University of Minnesota	Minneapolis, Minnesota
University of Missouri	Columbia, Missouri
University of New Mexico	Albuquerque, New Mexico

<u>School</u>	<u>Location</u>
University of Pennsylvania	Philadelphia, Pennsylvania
University of Rochester	Rochester, New York
University of Southern California	Los Angeles, California
Vanderbilt University	Nashville, Tennessee
Vassar College	Poughkeepsie, New York
Wash College	Bloomington, Indiana
Warner Pacific College	Portland, Oregon
Washington University	St. Louis, Missouri
Wellesley College	Wellesley, Massachusetts
Wesleyan University	Middletown, Connecticut
Whitman College	Walla Walla, Washington
Willamette University	Salem, Oregon
William Marsh Rice University	Houston, Texas
Williams College	Williamstown, Massachusetts
Yale University	New Haven, Connecticut

PROPRIETARY SCHOOLS THAT RECEIVE
DIRECT SCHOOL LOANS UNDER THE FISLP

<u>Direct Lender</u>	<u>School Name</u>	<u>Location</u>
Bell and Howell Schools, Inc.	DeVry Institute of Technology	Atlanta, Georgia
	DeVry Institute of Technology	Chicago, Illinois
	DeVry Institute of Technology	Dallas, Texas
	DeVry Institute of Technology	Phoenix, Arizona
	DeVry Technical Institute	Woodbridge, New Jersey
	Missouri Institute of Technology	Kansas City, Missouri
	Ohio Institute of Technology	Columbus, Ohio
Coleman College	Coleman College	San Diego, California
Electronics Institute	Electronics Institute	Kansas City, Missouri
ITT Educational Services, Inc.	Allied Institute of Technology	Chicago, Illinois
	Bailey Technical School	Kansas City, Missouri
	Bailey Technical School	Memphis, Tennessee
	Bailey Technical School	St. Louis, Missouri
	Columbus Business University	Columbus, Ohio
	ITT Business Institute	Bailey's Crossroads, Virginia
	ITT Business Institute	Indianapolis, Indiana
	ITT Technical Institute	Chelsea, Massachusetts
	ITT Technical Institute	Dayton, Ohio
	ITT Technical Institute	Evansville, Indiana
	ITT Technical Institute	Fort Wayne, Indiana
	ITT Technical Institute	Indianapolis, Indiana
	ITT Technical Institute	Portland, Oregon

<u>Direct Lender</u>	<u>School Name</u>	<u>Location</u>
ITT Educational Services, Inc. (Cont'd)	Link's School of Business Minnesota School of Business Peterson School of Business Taylor Business Institute Taylor Business Institute Taylor Business Institute Youngstown College of Business	Boise, Idaho Minneapolis, Minnesota Seattle, Washington Chicago, Illinois Hempstead, New York New York, New York Youngstown, Ohio
Katherine Gibbs Schools, Inc.	Katherine Gibbs School Katherine Gibbs School Katherine Gibbs School Katherine Gibbs School Katherine Gibbs School Katherine Gibbs School Katherine Gibbs School	Boston, Massachusetts Melville, New York Montclair, New Jersey New York, New York Norwalk, Connecticut Philadelphia, Pennsylvania Providence, Rhode Island
Pacific College of Medical/ Dental Assistants	Pacific College of Medical/ Dental Assistants	San Diego, California
Pittsburgh Institute of Aeronautics	Pittsburgh Institute of Aeronautics	West Mifflin, Pennsylvania
San Diego College of Medical/ Dental Assistants	San Diego College of Medical/ Dental Assistants	San Diego, California

The on-site interviews with school officials were concerned with the reasons for the school's involvement as a direct lender and its policies and practices for administering the FISLP loans. Those interviewed were typically such administrators as financial aid officers, bursars, treasurers, vice presidents for administration and finance, and corporate comptrollers. On-site visits were made to all eight direct proprietary lenders in the FISLP and 15 of their 39 schools. The 15 schools included (1) each of the five single-school lenders and (2) from two to five schools of each of the three multischool lenders. The schools associated with the multischool lenders were selected to provide a representative cross section for each lender. The criteria for selection were the inclusion of schools with differences in geographic setting (e.g., rural or urban, inner city or suburban, and region of the United States), type of curriculum (e.g., technical, engineering, business, liberal), and student body demographics (e.g., race, age, and income distribution). The 16 institutions of higher education were selected to provide a cross section of the schools, with differences in geographic setting, size of enrollment, type of curriculum, private or public status, tuition level, admissions standards, and enrollment selectivity.

The on-site interviews with current borrowers were concerned with their reasons for deciding to attend their schools, their understanding of the loans, their satisfaction with the program, and their understanding and awareness of related issues. A questionnaire was administered to a sample of current borrowers of direct FISLP loans at selected proprietary schools and institutions of higher education. A universe of schools was defined for each of the school groups, consisting of 12 proprietary schools and 10 institutions of higher education that are direct FISLP lenders. The proprietary schools were selected so as to include (1) the one school associated with each of the five lenders that have only one school and (2)

at least two schools from each of the three lenders that have multiple schools. The institutions of higher education were selected so as to include a mix of schools with different geographic, public/private, high cost/low cost, high academic/other characteristics. The results of the questionnaires were subjected to statistical analysis.

Various data were gathered during the on-site visits. For all the schools visited, information was obtained on such institutional factors as default rate, disbursement history, claims history, enrollment, and annual cost of attendance. For four of the proprietary schools and four of the institutions of higher education, data were also gathered on the characteristics of a sample of past student borrowers who were in the process of repaying their direct FISLP loans and an equal sample of past student borrowers who were in default on their loans. The results were statistically analyzed using simple correlation analysis to relate these characteristics to the occurrence of default or repayment. In addition, 24 of the institutions of higher education that were not visited were surveyed by telephone. These discussions focused on an overview of their involvement as direct lenders.

The activities described were supplemented by outside discussions with key persons in the U.S. Office of Education; the state guarantee agencies in Pennsylvania and South Carolina; the Student Loan Marketing Association (Sallie Mae); the United Student Aid Funds, Inc.; the Academic Financial Services Association; Citicorp; selected schools that are authorized to grant direct FISLP loans but are inactive (the University of Southern California and Columbia Commercial College); and other organizations.

The data gathered through these activities were analyzed, and this report was prepared. The end products of this study include this final

report and a computer tape of the data bases developed for the current student borrowers and for the past student borrowers (the tape is intentionally devoid of school or borrower identifiers).

ARRANGEMENT OF THE REPORT

This report consists of the following six chapters and two appendixes:

- I - Introduction (this chapter)
 - II - Background
 - III - Attitudes And Characteristics Of Current Borrowers Of Direct FISLP Loans
 - IV - Administrative Policies And Practices Used By Direct School Lenders
 - V - Relationship between The Characteristics Of Past Borrowers And The Repayment Status Of Their Direct FISLP Loans
 - VI - Summary Of Observations And Implications
-
- Appendix A - Questionnaire Used For Current In-School Borrowers Of Direct FISLP Loans
 - Appendix B - Interview Guide Used For Reviewing The Administrative Practices Of The Schools
 - Appendix C - Initial Regression Model Analysis Relating Borrower Characteristics And Repayment Status

II - BACKGROUND

- Overview Of Federal Student Aid Programs
- Recent Trends In The GSLP
- Overview Of Direct School Lending Under The FISLP

II - BACKGROUND

This chapter presents background information on the Federal Insured Student Loan Program (FISLP). It includes sections on an overview of federal student aid programs, recent trends in the Guaranteed Student Loan Program (GSLP), and an overview of direct school lending under the FISLP.

OVERVIEW OF FEDERAL STUDENT AID PROGRAMS

The Federal Government, through the U.S. Department of Health, Education and Welfare, plays a significant role in providing financial aid to students seeking postsecondary education. Its efforts include the following five major financial aid programs for students attending post-secondary institutions:

1. The Guaranteed Student Loan Program (GSLP) provides moderate-interest (7 per cent), long-term (five- to ten-year repayment period) loans to students enrolled on at least a half-time basis. The GSLP, established by the Higher Education Act of 1965 and amended by the Higher Education Act Amendments of 1976 and the Middle Income Assistance Act of 1978, extends eligibility to all students regardless of their family income. It contains two major operating segments:

- One, the Federal Insured Student Loan Program (FISLP), under which loans are made to students by organizations authorized by the U.S. Office of Education (USOE) (including proprietary schools, institutions of higher education, commercial banks, mutual savings banks, savings and loan associations, credit

unions, insurance companies, pension funds, and not-for-profit organizations). The lenders use their own funds to make the loans. The role of the Federal Government is to establish program policies and guidelines, to insure the loans against default as well as the death or disability of the borrowers, and to provide an interest subsidy to the lender. It is the making of the direct FISLP loans by schools with which this study for the USOE is concerned.

- Two, the state guarantee agency program, under which loans are made to students directly by banks, other financial institutions, state direct lending agencies, or other organizations and insured by the state and reinsured (in part or wholly) by the Federal Government. The loans are similar to those issued under the FISLP, the primary difference being the major administrative role of the state in the state agency program.

2. The National Direct Student Loan (NDSL) Program provides low-interest (3 per cent), long-term (up to ten-year repayment period) loans to students for postsecondary education. The program is the successor to the National Defense Student Loan Program, created in 1958, which was the first major student loan program. The program, which involves a "needs test" for eligibility, is funded 90 per cent by the Federal Government and 10 per cent by the schools. A revolving fund is established, so that repayments by previous NDSL borrowers are used to provide funds for new NDSL loans; further funding is provided annually by the Federal Government.

3. The Basic Education Opportunity Grant (BEOG) Program provides grants for postsecondary education to undergraduate or vocational school students who can demonstrate financial need. The program was established

by the 1972 Amendments to the Higher Education Act of 1965. It is the only program of the USOE under which any eligible student (as defined by the needs test) automatically receives a grant. The grants are entirely financed with federal funds.

4. The Supplemental Educational Opportunity Grant (SEOG) Program provides grants to undergraduate students demonstrating "exceptional" financial need. Created by the 1972 Amendments, the SEOG program, which succeeded the Educational Opportunity Grant (EOG) program, is funded exclusively by the Federal Government. The grants are strictly supplemental, so that students must receive at least an equivalent amount from other sources.

5. The College Work-Study (CWS) Program enables students to finance a portion of their education by working at the school or in off-campus public service jobs. Authorized by the Higher Education Act of 1965, the CWS is available to students who can demonstrate financial need. Students may work up to 40 hours a week; for the most part, they are paid at the minimum wage rate. CWS is funded 80 per cent by the Federal Government and 20 per cent by the schools.

RECENT TRENDS IN THE GSLP

The USOE estimates that 1.8 million GSLP loans, totaling \$3.96 billion, will be made to students in fiscal 1980. This amount, a record high for the program, will bring the total distributed through GSLP loans since the program's inception to about \$20 billion.

In recent years the USOE has actively encouraged the formation of state agencies. As a result, there are state agency programs in 42 states, the District of Columbia, various U.S. territories, and a nonprofit

agency (the United Student Aid Fund). As of July 1, 1979, the states that did not have a state guarantee agency program were Alabama, Arizona, Hawaii, Mississippi, Montana, North Dakota, West Virginia, and Wyoming.

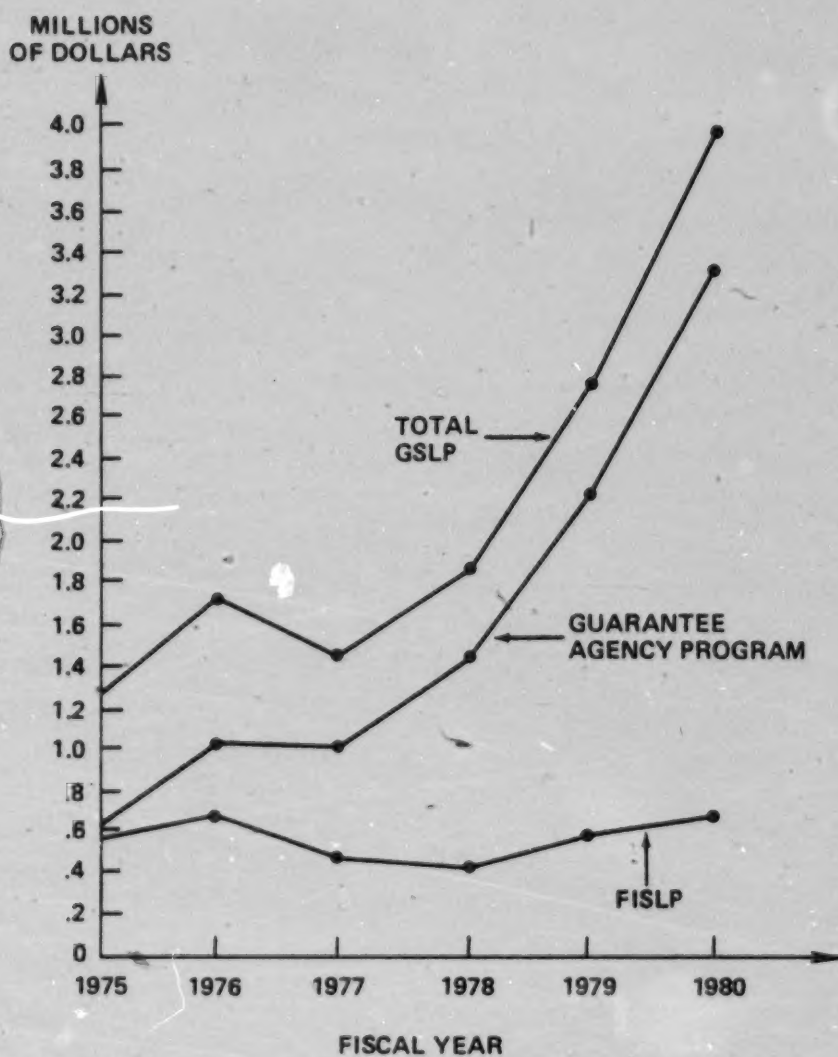
While the state agency program has been expanded, the scope of the FISLP and direct school lending have been reduced. For fiscal 1980, the state guarantee agency program is expected to disburse \$3,300 million in new loans (compared with an anticipated \$660 million in FISLP loans), or about 83 per cent of all GSLP loans. As shown in Exhibit II-1, the state agency program has increased by about 430 per cent since fiscal 1975, and the FISLP segment has decreased by about 1 per cent over the same period. Although a major shift in direction has taken place, it is presumed that the FISLP will continue as an operating program in states that either do not have state agencies or do not make loans accessible to all their eligible students (e.g., out-of-state students) who seek them.

OVERVIEW OF DIRECT SCHOOL LENDING UNDER THE FISLP

In direct school lending under the FISLP, proprietary schools and institutions of higher education apply to the USOE for authorization as direct lenders of federally insured loans to their students. A committee in the USOE evaluates their applications and issues funding authorizations and time period limitations. A school is generally authorized to be a direct lender when GSLP loan funds are not otherwise available to its students and the school represents a loan source of last resort.

All students attending a postsecondary school on at least a half-time basis are eligible for the loans. Students may borrow up to \$2,500 per year if they are undergraduates in a college or university or attend a vocational school; they may borrow up to \$5,000 per year if they are in a graduate or professional school program. The period for repayment of the

NEW LOAN DISBURSEMENTS UNDER THE GUARANTEED STUDENT LOAN PROGRAM



NOTE: FY 1979 and 1980 Figures are Estimates by USOE.

loan can be as long as ten years and begins nine to twelve months after the student graduates or leaves schools. The interest on the loan is 7 per cent, which the Federal Government pays until the repayment period begins. The government subsidizes the loan throughout its life by paying an interest subsidy (i.e., the difference between prevailing short-term interest rates and 7 per cent) and an administrative fee to the issuer. There are provisions for certain deferments or cancellations of repayment. An insurance premium (guarantee fee) of up to 1 per cent of the loan is paid by the student when the loan is disbursed.

The school is responsible for administering its direct FISLP loans, in accordance with USOE rules and regulations. This responsibility extends to such areas as disbursement, maintenance of address information, exit interviews, billing, collection, and records retention. After the loans are disbursed, they may be administered either by the school or by a third party on a contractual basis. The loan may be held by the school or sold to a third party, who would then assume the administrative responsibility.

The proprietary schools participating in the FISLP as direct lenders include a wide variety of business, trade, technical, and vocational schools. Although at least 150 proprietary schools have participated in the program as direct lenders, the number of proprietary school lenders has declined significantly in recent years; in most instances, lending authority under the FISLP was withdrawn because of a high rate of default or delinquency. As noted in Chapter I, eight proprietary school lenders were authorized and active as direct lenders as of July 1, 1979. They have authority to disburse a total of \$16 million in loans per year.

At least 201 institutions of higher education, including colleges and universities, have at some point been authorized as direct lenders. As of

July 1, 1979, 89 schools were authorized as direct lenders, with authority to disburse a total of \$84 million in loans per year. However, many of them have never made loans as direct lenders, and most of them are presently inactive as direct lenders because of the recent expansion of state agency programs.

III - ATTITUDES AND CHARACTERISTICS OF CURRENT BORROWERS OF DIRECT FISLP LOANS

- Objectives And Approach
- Findings On Current Borrowers At Selected Proprietary Schools
- Findings On Current Borrowers At Selected Institutions Of Higher Education
- Summary Of Observations

III - ATTITUDES AND CHARACTERISTICS OF CURRENT BORROWERS OF DIRECT FISLP LOANS

This chapter discusses the attitudes and characteristics of current borrowers of direct FISLP loans. It includes sections covering four areas:

- Objectives and approach
- Findings on current borrowers at selected proprietary schools
- Findings on current borrowers at selected institutions of higher education
- Summary of observations.

A - OBJECTIVES AND APPROACH

A major objective of this study was to assess the attitudes and characteristics of current borrowers of direct FISLP loans. This assessment was to include the development of additional information about the following:

- The factors involved in the students' decisions to attend their schools, including which reasons were important to the decision, whether the students feel that they were pressured to enroll by parents or by school officials, and whether they believe that they were adequately informed about various aspects of the schools before enrollment
- The students' understanding of the loans, including whether they understand the repayment terms and the valid reasons for deferring repayment; whether they are aware of the need to inform the school of address changes; whether they feel well

informed about the terms and obligations of the loan; and whether they have been able to get satisfactory responses from the school to their questions about the loans

- The students' satisfaction with the school program
- The students' understanding and awareness of certain other issues, including whether they first had to obtain a loan rejection from a bank and whether they feel that the size of the loan is appropriate for their need.

The method used to assess attitudes and characteristics was a survey of a sample of current borrowers of direct FISLP loans at selected proprietary schools and at selected institutions of higher education. Accordingly, two school groups were defined:

- A "proprietary schools group" consisting of all eight direct proprietary lenders and including 12 of their 39 schools, as listed in Exhibit III-1. These schools were selected to ensure inclusion of (1) three of the four single-school lenders and (2) two or more schools - with different geographic, curricular, and student body characteristics - from each of the three multiple-school lenders.
- An "institutions of higher education group" consisting of ten of the 89 institutions of higher education that are direct FISLP lenders. These schools, shown in Exhibit III-2, were selected so as to ensure a mix of schools with different geographic, public/private status, cost, and academic characteristics.

For both universes, a standardized, written questionnaire (shown in Appendix A) was used. This questionnaire was administered by the study team to a random sample of a school's current borrowers of direct FISLP loans. The questionnaire was administered to a sufficient number of

PROPRIETARY SCHOOLS INCLUDED IN THE SURVEY
OF CURRENT BORROWERS

<u>Direct Lender</u>	<u>School Name</u>	<u>Location</u>
Bell and Howell Schools, Inc.	DeVry Institute of Technology DeVry Institute of Technology DeVry Technical Institute	Atlanta, Georgia Phoenix, Arizona Woodbridge, New Jersey
Coleman College	Coleman College	San Diego, California
ITT Educational Services, Inc.	Bailey Technical School ITT Business Institute ITT Technical Institute Youngstown College of Business	St. Louis, Missouri Bailey's Crossroads, Virginia Indianapolis, Indiana Youngstown, Ohio
Katherine Gibbs Schools, Inc.	Katherine Gibbs School Katherine Gibbs School	Boston, Massachusetts New York, New York
Pacific College of Medical/ Dental Assistants	Pacific College of Medical/ Dental Assistants	San Diego, California
San Diego College of Medical/ Dental Assistants	San Diego College of Medical/ Dental Assistants	San Diego, California

INSTITUTIONS OF HIGHER EDUCATION INCLUDED IN
THE SURVEY OF CURRENT BORROWERS

<u>School</u>	<u>Location</u>
Baptist College of Charleston	Charleston, South Carolina
Creighton University	Omaha, Nebraska
Embry-Riddle Aeronautical University	Daytona Beach, Florida
George Fox College	Newberg, Oregon
Harvard University	Cambridge, Massachusetts
Johns Hopkins University	Baltimore, Maryland
Southeastern College of the Assemblies of God	Lakeland, Florida
University of New Mexico	Albuquerque, New Mexico
Whitman College	Walla Walla, Washington
Yale University	New Haven, Connecticut

individual borrowers to ensure results statistically representative of all the direct FISLP borrowers at the underlying universes of schools. At some schools, the number interviewed was sufficient to be statistically representative of all the direct borrowers at that school.

The results in these areas are detailed in the next two sections and then summarized in the final section of this chapter.

**B - FINDINGS ON CURRENT BORROWERS
AT SELECTED PROPRIETARY SCHOOLS**

This section contains our findings on current borrowers at the universe of selected proprietary schools. The section is divided into subsections discussing the students' decision to attend their schools, their understanding of the terms and obligations of the FISLP loan, their satisfaction with the schools' training, and other related issues.

The data in this section were obtained from standardized questionnaires given to a random sample of 265 current student borrowers of direct FISLP loans; the borrowers were selected from 12 schools. The student responses to each of the questions have been summarized and displayed in tables. The tabulations include a weighted average of schools A through I,* as well as the responses for schools A, B, C, D, E, F, G, H, and I.** The data presented as the "weighted average for schools A through I" are statistically significant within ± 10 per cent at a 90 per cent level of confidence, or better, for the group of 12 schools. The data on the individual schools are presented for descriptive purposes only; they are usually not statistically significant for the underlying borrower population at an individual school.

*The weighted average for schools A through I is a statistically weighted average of the student responses. The weighting is based on the ratio of the population of borrowers at a school to the total population of borrowers at school A through I.

**Schools A, B, C, D, E, F, G, and H are individual schools. School I is a combination of four low-student-response schools, none of which had sufficient borrowers to stand alone.

As shown in Exhibit III-3, the typical student* was a 20-year-old white male, never married, who has completed high school and has not completed a year of other schooling.

STUDENT DECISION TO ATTEND THE SCHOOL

This subsection discusses the following components of the students' decision to attend their schools:

- The importance of certain factors in the enrollment decision
- The extent of outside pressure to enroll
- The adequacy of preenrollment information about the school.

Importance Of Certain Factors In The Enrollment Decision

Student borrowers were asked which of the following reasons were important, somewhat important, or not important in their decision to attend the school: prospect of obtaining employment, reputation of the school for training, ability to get the loan, proximity of the school to the student's home, and friends of the student also attending the school. The results of these questions are discussed below:

The prospect of obtaining employment in the field of training was very important in a student's decision to attend a proprietary school. About 92 per cent of the students said that it was an important factor, and 98 per cent said that it was important or somewhat important in their enrollment decision. As shown in the table below, this finding was generally consistent among schools:

*The responses of some students were weighted more heavily than others because of differences in the underlying school populations that they represent.

PROFILE OF THE STUDENTS INCLUDED IN
THE PROPRIETARY SCHOOL BORROWER SURVEY

<u>Sex</u>		<u>Race</u>	
Male	65%	White/Caucasian	71%
Female	34%	Black/Negro	20%
No response	1%	Other	7%
		No response	2%
<u>Age</u>		<u>Marital Status</u>	
18 years old or less	19%	Single, never married	83%
19-20 years old	43%	Married	12%
21-22 years old	20%	Separated, divorced, or widowed	3%
23 years old or older	17%	No response	1%
No response	1%		
<u>Years Of Schooling Completed Before Enrollment</u>		<u>Number Of Dependents</u>	
At least 12 grades of high school	96%	None	79%
At least one year at a vocational or technical school	11%	One	10%
At least one year at a junior college or community college	7%	Two or three	8%
At least one year at a four-year or other college	11%	Four or more	3%
No response	0%	No response	0%

<u>N*</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
256	Weighted average of schools A through I	92%(a)	6%(b)	2%(c)
28	School A	89	11	0
36	School B	94	6	0
25	School C	92	4	4
51	School D	88	10	2
33	School E	91	9	0
29	School F	76	24	0
28	School G	93	7	0
12	School H	92	3	0
14	School I	93	7	0

(a)+5; (b)+5; (c)+3.

The importance of employment opportunities to the enrollment decision was confirmed through a related question. The students were asked whether the school had stated before they enrolled that it would be easy to find a job related to their training and whether this statement was an important consideration in their decision to enroll. About 82 per cent of the students reported that the school had stated it would be easy for them to find a job. Of this group, 78 per cent said it was important to their decision, and 98 per cent said it was either important or somewhat important. Again, the responses were generally consistent in all the schools, as shown in the following table:

*N refers to the number of student responses received.

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
202	Weighted average of schools A through I	78%(a)	20%(b)	2%(c)
18	School A	67	28	5
31	School B	77	16	6
21	School C	76	24	0
36	School D	76	24	0
23	School E	65	26	9
23	School F	78	17	4
26	School G	77	19	4
13	School H	85	15	0
11	School I	100	0	0

(a)+8; (b)+8; (c)+2.

The reputation of the school for training was also an important factor in the student's decision to attend the school. About 65 per cent of the students said that the school's reputation for training was important, and 99 per cent said that reputation was important or somewhat important. There are some differences among schools in the student responses, primarily involving the distinction between whether the school's reputation is "important" or "somewhat important." The response of "not important" was low for all the schools, as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>(Responses (Per Cent))</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
261	Weighted average of schools A through I	65%(a)	34%(b)	1%(c)
29	School A	72	28	0
37	School B	68	30	3
25	School C	64	36	0
53	School D	66	32	2
32	School E	66	34	0
30	School F	57	33	10
28	School G	57	43	0
13	School H	85	15	0
14	School I	93	7	0

(a)+8; (b)+8; (c)+1.

The ability to get the loan was important to almost half the students in their enrollment decision. About 41 per cent of the students stated that the ability to get the loan was an important factor, and 85 per cent felt that it was important or somewhat important. There was some inter-school variation in response to this question. For example, responses that the loan was "not important" ranged from a low of 8 per cent at two schools to a high of 29 to 31 per cent at three others:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
252	Weighted average of schools A through I	41½(a)	44½(b)	15½(c)
28	School A	64	21	14
34	School B	38	38	24
25	School C	40	52	8
52	School D	44	35	21
30	School E	53	33	13
29	School F	45	24	31
27	School G	37	33	30
13	School H	69	23	8
14	School I	21	50	29

(a)+9; (b)+9; (c)+1.

The finding on the importance of the FISLP loan was confirmed by a question in which students were asked whether they would have enrolled if they had not received the loan. More than half the students responded either that they would not or that they probably would not have attended the school if they had been unable to obtain the loan. As shown in the table below, about 22 per cent of the students responded that they definitely would not have attended, 35 per cent that they probably would not have attended, 31 per cent that they probably would have attended, and 12 per cent that they definitely would have attended without the loan:

N	Respondent Group	Responses (Per Cent)			
		Definitely	Probably	Probably	Definitely
		Would Have	Would Have	Would Not	Would Not
		Enrolled	Enrolled	Have Enrolled	Have Enrolled
262	Weighted average of schools A through I	12%(a)	31%(b)	35%(c)	22%(d)
29	School A	28	14	38	21
47	School B	18	35	32	14
25	School C	8	28	40	24
42	School D	15	38	25	21
33	School E	15	21	45	18
30	School F	7	33	20	40
28	School G	11	36	25	29
14	School H	14	43	21	21
14	School I	21	29	36	14

(a)+5; (b)+8; (c)+9; (d)+7.

The proximity of the student's home to the school was generally of lesser importance in the enrollment decision and, even then, was only important at certain schools. Overall only about 8 per cent of the students stated that proximity to the home was important in the enrollment decision and, at the other extreme, 71 per cent said it was not important. However, the responses differ among schools. For example, proximity to the home was at least somewhat important to 83 per cent of the students at one school but only 8 per cent of the students at another school, as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
249	Weighted average of schools A through I	8%(a)	21%(b)	71%(c)
27	School A	30	37	33
34	School B	12	35	53
24	School C	0	8	92
51	School D	8	25	67
28	School E	36	21	43
31	School F	39	26	35
28	School G	18	43	39
12	School H	33	50	17
14	School I	29	43	29

(a)+2; (b)+6; (c)+6.

Friends attending the school were rarely important in the enrollment decision. About 90 per cent of the students said that having friends attending the school was not an important reason for their enrollment decision. As shown in the following table, the finding is consistent among schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
236	Weighted average of schools A through I	5%(a)	5%(b)	90%(c)
25	School A	0	12	88
34	School B	12	3	85
25	School C	4	4	92
50	School D	0	16	84
26	School E	8	4	88
26	School F	8	12	81
26	School G	0	4	96
11	School H	9	0	91
13	School I	0	0	100

(a)4; (b)4; (c)5.

Extent Of Outside Pressure To Enroll

Student borrowers at the proprietary schools were asked whether they received pressure from parents or school officials to enroll in the school. A very few students also listed other sources of external pressure that contributed to their enrollment decision. The results of these questions are presented below.

Most students said that they were not pressured to enroll by school officials, although there are some differences among schools. About 81 per cent of the students said that they were not pressured to enroll, 17 per cent said they were somewhat pressured, and 2 per cent said that they were pressured. There are variations among the schools, however. At three of the schools, 25 to 29 per cent of the students felt at least "somewhat pressured," as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
258	Weighted average of schools A through I	2%(a)	17%(b)	81%(c)
28	School A	4	4	92
37	School B	0	8	92
25	School C	0	20	80
51	School D	14	14	72
33	School E	3	18	79
30	School F	0	17	83
28	School G	4	25	71
12	School H	17	8	75
14	School I	0	0	100

(a)+1; (b)+7; (c)+7.

Most students did not feel that they were pressured by their parents to enroll in their school. Some 85 per cent of the students stated that they were not pressured to enroll by parents. This response was consistent among schools, as shown in the following table:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
259	Weighted average of schools A through I	1%(a)	14%(b)	85%(c)
28	School A	3	3	93
37	School B	3	8	89
25	School C	0	16	84
51	School D	0	14	86
33	School E	3	6	91
30	School F	0	13	87
28	School G	0	18	82
13	School H	8	15	77
14	School I	0	7	93

(a)+1; (b)+6; (c)+6.

Adequacy Of Information About The School

Student borrowers were asked about the adequacy of their information about the school before enrollment. The information asked about included:

- The total cost to complete the program
- The length of time to complete the program
- The content and difficulty of the courses.

The results of these questions are discussed below.

About half the students felt that they were well informed on costs, although there were some large variations among schools. About 53 per cent of the students felt that they were well informed and 14 per cent that they were not well informed. There were some major differences among schools. For example, 93 and 100 per cent of the students at two schools said that they were well informed on costs, compared with only 43 and 44 per cent at two other schools, as shown in the following table:

<u>Responses (Per Cent)</u>				
<u>N</u>	<u>Respondent Group</u>	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
265	Weighted average of schools A through I	53%(a)	32%(b)	14%(c)
29	School A	93	7	0
37	School B	43	51	5
25	School C	44	36	20
53	School D	60	26	13
34	School E	85	12	3
31	School F	81	19	0
28	School G	82	7	11
14	School H	57	14	28
14	School I	100	0	0

(a)+9; (b)+8; (c)+7.

Almost all students said they were well informed about the length of time it would take to complete the program. About 95 per cent of the students felt that they were adequately informed on this issue, and 99 per cent were at least somewhat adequately informed. There was little inter-school variation on this issue, as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
264	Weighted average of schools A through I	95%(a)	4%(b)	1%(c)
29	School A	96	4	0
37	School B	95	5	0
25	School C	96	4	0
53	School D	92	4	4
34	School E	91	0	9
31	School F	94	6	0
28	School G	100	0	0
13	School H	77	15	8
14	School I	100	0	0

(a)+3; (b)+3; (c)+.5.

About half the students felt that they were well informed on the content and difficulty of the courses, although there were some large variations among schools. Some 45 per cent of the students said that they were well informed before enrollment about the content and difficulty of the courses; about 12 per cent said that they were not well informed. There was some interschool variation, the response "not well informed" ranging from 7 to 21 per cent, as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
264	Weighted average of schools A through I	45%(a)	42%(b)	12%(c)
29	School A	83	7	10
37	School B	49	35	16
25	School C	44	48	8
53	School D	38	45	17
34	School E	47	38	15
30	School F	37	50	13
28	School G	43	36	21
14	School H	57	28	14
14	School I	71	21	7

(a)+9; (b)+9; (c)+5.

UNDERSTANDING OF THE LOAN

This subsection reviews the student responses to questions about their understanding of their FISLP loan obligation, including:

- Knowledge of the repayment terms
- Awareness of the obligation to inform the school of address changes
- Feeling that they are well informed about the loan
- School responsiveness to their questions on the loan.

Repayment Terms

Student borrowers were asked to respond to a series of questions on their knowledge of their rights and responsibilities concerning their loans. Issues explored concerned their understanding of the student's personal responsibility for repaying the loan, the start of the repayment cycle,

the amount of the monthly payment for the FISLP loan, and whether graduating and going on to another school is a valid reason for deferring repayment. The answers to these questions are discussed below.

Virtually all proprietary school students understand that they are personally responsible for repaying their loans. About 93 per cent of the students said that they were personally responsible for repaying their loans. Only 7 per cent had a different response, and all of them said their parents were responsible (which, in many or all cases, may reflect an informal arrangement with their parents). As shown in the table below, there was little interschool variation:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
261	Weighted average of schools A through I	93%(a)	7%(b)
29	School A	86	14
37	School B	92	8
25	School C	92	8
51	School D	100	0
34	School E	91	9
29	School F	86	14
28	School G	93	7
14	School H	93	7
14	School I	100	0

(a)+5; (b)+5.

About half the students were aware of when the repayment cycle begins. The USOE regulations state that repayment may begin between 9 and 12 months after leaving school; whether the period is 9, 10, 11, or 12 months is established by the school and is supposed to be communicated to the students. About 55 per cent of the student responses were consistent with

their school's policy, while about 45 per cent of the students were incorrect. There were significant differences among schools. At three of the schools, only 42 to 52 per cent of the borrowers knew the correct starting point for repayment; by contrast, at four other schools, 86 to 94 per cent of the borrowers were correct, as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Correct</u>	<u>Incorrect By Three Months Or Less</u>	<u>Incorrect By More Than Three Months</u>
243	Weighted average of schools A through I	55%(a)	29%(b)	16%(c)
29	School A	72	24	3
31	School B	42	39	19
22	School C	50	32	18
48	School D	52	27	21
33	School E	94	3	3
26	School F	92	0	8
26	School G	69	23	8
14	School H	93	7	0
14	School I	86	14	0

(a)+9; (b)+9; (c)+7.

About one-third of the students said that they had been informed by the school of the size of their monthly payments. About 31 per cent of the students said they had been told what their monthly payment would be, whereas 69 per cent said they had not. Students who said that they had been told what their monthly payment would be varied from a low of 20 per cent to a high of only 55 per cent, as shown in the table below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
260	Weighted average of schools A through I	31%(a)	69%(b)
29	School A	55	45
36	School B	36	64
25	School C	20	80
51	School D	43	57
34	School E	24	76
29	School F	55	45
28	School G	54	46
14	School H	50	50
14	School I	36	64

(a)+7; (b)+7.

Students are generally unaware that going on to another school is a valid reason for deferring repayment of their loans. Only 39 per cent of the students knew that graduating and going on to another school was a valid reason for deferral. About 24 per cent said it was not a valid reason, and 37 per cent said they didn't know. In all cases, at least half the students at a school were unaware that this was a valid reason for deferral, as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Valid Reason</u>	<u>Not A Valid Reason</u>	<u>Don't Know</u>
252	Weighted average of schools A through I	39%(a)	24%(b)	37%(c)
28	School A	18	46	36
37	School B	32	19	49
25	School C	44	24	32
53	School D	42	28	30
30	School E	47	23	30
28	School F	25	32	43
26	School G	31	19	50
13	School H	31	54	15
12	School I	50	17	33

(a)+9; (b)+8; (c)+8.

Address Changes

Student borrowers were asked whether they were supposed to inform the school of an address change while they were in school and when they had left school. The results of these questions are discussed below.

More than 80 per cent of the students were aware of their obligation to notify the school of a change of address while in school. About 82 per cent of the students were aware of the need to inform the school of an address change while they were enrolled. About 13 per cent did not know whether this obligation existed, and 5 per cent thought it did not. There were significant differences among schools. At four schools, between 79 and 92 per cent of the borrowers were aware of the obligation; at two schools, only 42 per cent and 50 per cent were aware of it:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>No</u>	<u>Don't Know</u>
264	Weighted average of schools A through I	82%(a)	5%(b)	13%(c)
29	School A	83	3	14
36	School B	83	3	14
25	School C	92	4	4
53	School D	70	13	17
34	School E	79	0	21
31	School F	42	3	55
28	School G	57	14	29
14	School H	50	0	50
14	School I	71	0	29

(a)+5; (b)+4; (c)+4.

Most students were unaware of their obligation to inform the school of an address change after they had left school. Only about 40 per cent of the students were aware of this obligation. Correct responses ranged from only 8 per cent at one school to a peak of 53 per cent at another. The same three schools had the lowest student awareness on both the in-school and out-of-school address change questions, as shown in the table below:

N	Respondent Group	Responses (Per Cent) ^a		
		Yes	No	Don't Know
246	Weighted average of schools A through I	40%(a)	19%(b)	41%(c)
22	School A	41	18	41
34	School B	26	15	59
23	School C	48	26	26
52	School D	48	13	38
32	School E	53	6	41
29	School F	17	17	66
27	School G	26	7	67
13	School H	8	23	69
14	School I	43	7	50

(a)+9; (b)+8; (c)+8.

Feeling That They Are Well Informed

Student borrowers were asked the extent to which they felt well informed regarding the terms and obligations of their loan.

Students feel only somewhat well informed about the terms and obligations of their loans. About 63 per cent of the students felt that they were somewhat well informed on the terms and conditions of the loan; about 26 per cent felt that they were well informed, and 11 per cent that they were not well informed. There were very wide variations among schools in the "yes" and "somewhat" responses; for example, the "yes" response ranged from 0 per cent at one school to 65 per cent at another school:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
263	Weighted average of schools A through I	26%(a)	63%(b)	11%(c)
29	School A	62	31	7
37	School B	38	49	13
25	School C	20	68	12
53	School D	13	75	12
34	School E	65	32	3
31	School F	32	61	6
27	School G	30	67	4
13	School H	0	92	8
14	School I	36	43	21

(a)+7; (b)+8; (c)+6.

School Responsiveness To Their Questions

Student borrowers were asked whether they have questioned the school since enrollment concerning their loan and whether they have received satisfactory responses.

About 40 per cent of the students have not had questions concerning their loans. As shown in the table below, the number of students who had questions has ranged from a low of 29 to 35 per cent at three schools to a high of 71 per cent and 83 per cent at two other schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Had No Questions</u>	<u>Had Questions</u>
238	Weighted average of schools A through I	38%(a)	62%(b)
22	School A	64	36
37	School B	38	62
23	School C	35	65
48	School D	42	58
34	School E	71	29
30	School F	83	17
21	School G	29	71
12	School H	33	67
11	School I	45	55

(a)+9; (b)+9.

About two-fifths of the students who have had questions have received satisfactory responses, although there are major variations among schools.

About 39 per cent of the students who have had questions received satisfactory responses from the schools, about 55 per cent received somewhat satisfactory responses, and 6 per cent received unsatisfactory responses. There are major differences among schools, as shown below. In particular, students at two schools (schools C and F) did not feel that they had received satisfactory responses; of the 20 respondents who have had questions at those schools, only one felt that the response was satisfactory, 15 responded "somewhat satisfactory," and 4 responded "unsatisfactory":

N	Respondent Group	Responses (Per Cent)		
		Satisfactory Response	Somewhat Satisfactory Response	Unsatisfactory Response
118	Weighted average of schools A through I	39%(a)	55%(b)	6%(c)
8	School A	49	38	14
23	School B	48	48	4
15	School C	7	67	27
28	School D	43	47	10
10	School E	70	30	0
5	School F	0	80	20
15	School G	67	33	0
8	School H	50	50	0
6	School I	83	17	0

(a)+7; (b)+11; (c)+6.

SATISFACTION WITH THE PROGRAM

This subsection discusses student satisfaction with the training they are receiving at the school.

Students are at least somewhat satisfied with the training they are receiving, although there are significant differences among schools. About 61 per cent of the students are satisfied with the training, 38 per cent are somewhat satisfied, and only 1 per cent are not satisfied. There are major variations among schools in being satisfied and somewhat satisfied. In particular, 43 and 46 per cent of the students at two of the schools were satisfied; at three other schools, 82 to 97 per cent of the students were satisfied, as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
263	Weighted average of schools A through I	61%(a)	38%(b)	1%(c)
29	School A	97	3	0
37	School B	57	43	0
25	School C	60	40	0
53	School D	75	21	4
33	School E	82	15	3
30	School F	43	53	3
28	School G	46	50	4
14	School H	79	21	0
14	School I	86	14	0

(a)+9; (b)+9; (c)+1.

OTHER RELATED ISSUES

This subsection discusses student responses on the following questions:

- Whether they first had to obtain a rejection for a loan from a bank
- The adequacy of the size of the loan.

Approximately 70 per cent of the borrowers said that they had to obtain a rejection of a student loan from a bank in order to get their loan from the school. Although U.S. Office of Education regulations require that students receive letters of rejection for a loan from two banks, only about 68 per cent of the students questioned responded that they had to obtain a rejection. There are differences between schools; at school H, all the students had to obtain a rejection; at school A, only 41 per cent had to do so. Most of the other schools were near the weighted average of 68 per cent, as shown:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
261	Weighted average of schools A through I	68%(a)	32%(b)
29	School A	41	59
37	School B	65	35
25	School C	64	36
51	School D	76	24
34	School E	71	29
29	School F	69	31
28	School G	86	14
14	School H	100	0
14	School I	71	29

(a) $\pm$.8; (b) $\pm$.8.

About 70 per cent of the borrowers felt that the size of the loan was appropriate for their needs. Some 68 per cent said that the size of their loan was appropriate, 31 per cent that it was too small, and less than 1 per cent that it was too large. There was little interschool variation, as shown in the following table:

<u>N</u>	<u>Respondent Group</u>	<u>Yes</u>	<u>Responses (Per Cent)</u>	
			<u>No, Too Small</u>	<u>No, Too Large</u>
261	Weighted average of schools A through I	68%(a)	31%(b)	1%(c)
29	School A	86	14	0
36	School B	72	28	0
25	School C	64	36	0
52	School D	77	19	4
33	School E	76	24	0
31	School F	84	16	0
28	School G	68	32	0
13	School H	69	31	0
14	School I	86	14	0

(a) $\pm$.8; (b) $\pm$.8; (c) $\pm$.5.

C - FINDINGS ON CURRENT BORROWERS AT SELECTED INSTITUTIONS OF HIGHER EDUCATION

This section contains our findings on current borrowers at the universe of selected institutions of higher education. This section is divided into subsections on the students' decision to attend the school, their understanding of the terms and obligations of the FISLP loan, their satisfaction with the school's training, and other related issues.

The data used in this section were obtained from a standardized questionnaire administered to a random sample of 161 current student borrowers of direct FISLP loans; the borrowers were selected from ten schools. The student responses to each of the questions have been summarized and displayed in tables. The tabulations include a weighted average of schools A through G,* as well as the responses for schools A, B, C, D, E, F, and G.** The data presented as the "weighted average for schools A through G" are statistically significant within 10 per cent at a 90 per cent level of confidence, or better, for the "universe of ten schools." The data on the individual schools are presented for descriptive purposes only; they are usually not statistically significant for the underlying borrower population at an individual school. As shown

*The weighted average for schools A through G is a statistically weighted average of the student responses. The weighting is based on the ratio of the population of borrowers at a school to the population of all borrowers at schools A through G.

**Schools A, B, C, D, E, and F are individual schools. School G is a combination of four low-student-response schools, none of which had sufficient borrowers to stand alone.

in Exhibit III-4, the typical student* was a 22-year-old white male, never married, who has completed high school but has not completed a year of other schooling and is enrolled in an undergraduate program.

STUDENT DECISION TO ATTEND THE SCHOOL

This subsection discusses the following elements of the students' decision to attend their schools:

- The importance of certain factors in the enrollment decision
- The extent of outside pressure to enroll
- The adequacy of preenrollment information on the school.

Importance Of Certain Factors In The Enrollment Decision

Student borrowers were asked which of the following reasons were important, somewhat important, or not important in their decision to attend the school: prospect of obtaining employment, reputation of the school for training, ability to get the loan, proximity of the student's home to the school, and friends of the student attending the school. The results of these questions are discussed below:

The prospect of obtaining employment in the field of training was generally important to a student's decision to attend the school. About 65 per cent of the students said that it was an important factor in their enrollment decision and 24 per cent that it was somewhat important. As shown in the table below, this finding was consistent in many of the schools:

*Some student responses were weighted more heavily than others, recognizing the differences in the underlying school populations that they represent.

PROFILE OF THE STUDENTS INCLUDED IN
THE INSTITUTIONS OF HIGHER EDUCATION BORROWER SURVEY

<u>Sex</u>		<u>Race</u>	
Male	53%	White/Caucasian	83%
Female	47%	Black/Negro	10%
No response	0%	Other	6%
		No response	1%
<u>Age</u>		<u>Marital Status</u>	
18 years old or less	8%	Single, never married	72%
19-20 years old	22%	Married	22%
21-22 years old	21%	Separated, divorced, or widowed	6%
23 years old or older	48%	No response	0%
No response	0%		
<u>Years Of Schooling Completed Before Enrollment</u>		<u>Number Of Dependents</u>	
At least 12 grades of high school	100%	None	84%
At least one year at a vocational or technical school	4%	One	6%
At least one year at a junior college or community college	6%	Two or three	7%
At least one year at a four-year or other college	56%	Four or more	3%
No response	0%	No response	0%
<u>Year Of Schooling</u>			
Undergraduate student	86%		
Graduate student	14%		

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
147	Weighted average of schools A through G	65%(a)	24%(b)	11%(c)
17	School A	53	18	29
40	School B	55	35	10
23	School C	48	26	26
13	School D	54	38	8
14	School E	50	36	14
17	School F	88	12	0
23	School G	61	30	9

(a)+9; (b)+8; (c)+3.

The importance of employment opportunities in the enrollment decision was confirmed through a related question. The students were asked whether the school had stated before they enrolled that it would be easy to find a job related to their training and whether this statement was an important consideration in their decision to enroll. About 30 per cent of the students reported that the school had stated it would be easy for them to find a job. Of this group, 60 per cent said it was important to their decision, and 87 per cent said it was either important or somewhat important.

There were significant differences between the graduate and the undergraduate students in the importance of the prospects of obtaining employment. As shown in the table below, the prospect of obtaining employment was significantly more important to the graduate students:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
20	Graduate students	90%	10%	0%
127	Undergraduate students	53	32	16

Another finding, shown in the table below, was that the prospect of obtaining employment was as important for undergraduate borrowers attending so-called high academic schools as it was for borrowers at other schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
24	Undergraduates at high academic schools	54%	29%	17%
84	Undergraduates at other schools	52	32	16

The reputation of the school for training was also of some importance in the student's decision to attend the school. About 83 per cent of the students said that the school's reputation for training* was important, and 95 per cent said it was an important or somewhat important factor. As shown in the table below, there are some significant differences among schools:

*The word "training" is used here so as to be consistent with the wording used for the survey of proprietary school students.

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
149	Weighted average of schools A through G	83%(a)	12%(b)	5%(c)
17	School A	53	41	6
38	School B	45	45	10
24	School C	46	25	29
15	School D	67	27	7
14	School E	93	7	0
18	School F	100	0	0
23	School G	83	17	0

(a)+5; (b)+5; (c)+2.

There are significant differences in these responses between the graduate and the undergraduate students. The reputation of the school for training was somewhat more important to graduate students than to undergraduate students. The reputation of the school for training was also more important in the enrollment decision of undergraduate borrowers attending so-called high academic schools than it was for borrowers at other schools, as shown in the table that follows:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
20	Graduate students	85%	10%	5%
25	Undergraduates at high academic schools	96	4	0
104	Undergraduate at other schools	54	35	11

The ability to get the loan is sometimes an important factor in the students' enrollment decision. About 37 per cent of the students stated that the ability to get the loan was an important factor, and 68 per cent felt that it was at least somewhat important. While there was some variation among schools, none of it is attributable to differences between graduate and undergraduate students or to differences between undergraduates at high academic and other types of schools.

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
146	Weighted average of schools A through G	37%(a)	31%(b)	32%(c)
17	School A	47	29	24
39	School B	49	44	7
22	School C	23	32	45
13	School D	15	15	70
14	School E	36	28	36
18	School F	44	33	22
23	School G	17	39	43

(a)+10; (b)+9; (c)+9.

In addition, the importance of the ability to get the loan did not appear to vary with the cost of the school. For the group of ten schools, the distribution of responses was not statistically different between high-cost schools (over \$3,500 per year), medium-cost schools (\$1,000-\$3,500 per year), and low-cost schools (under \$1,500 per year).

The finding on the importance of the FISLP loan was confirmed by a question in which students were asked whether they would have enrolled if they had not received the loan. About half the students responded either that they would not or that they probably would not have attended the school if they had been unable to obtain the loan. About 29 per cent

of the students responded that they definitely would not have attended, 21 per cent that they probably would not have attended, 25 per cent that they probably would have attended, and 25 per cent that they definitely would have attended without the loan. Again, there were wide differences among schools, as shown in the following table:

N	Respondent Group	Responses (Per Cent)			
		Definitely Would Have Enrolled	Probably Would Have Enrolled	Probably Would Not Have Enrolled	Definitely Would Not Have Enrolled
157	Weighted average of schools A through G	25%(a)	25%(b)	21%(c)	29%(d)
14	School A	21	14	28	36
46	School B	20	28	20	33
26	School C	58	19	15	8
15	School D	7	33	27	33
15	School E	20	40	0	40
18	School F	17	17	39	28
23	School G	30	30	15	26

(a)+8; (b)+8; (c)+7; (d)+9.

The proximity of the student's home to the school was generally of lesser importance in the enrollment decision and, even then, was only important at certain schools. Overall, about 14 per cent of the students stated that proximity to the home was important in the enrollment decision, and, at the other extreme, 67 per cent said it was not important. The responses differ, however, among schools. As shown in the table below, proximity to the home was "important" to 60 and 61 per cent at two of the schools but only to 0 to 18 per cent at each of the other five schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
153	Weighted average of schools A through G	14%(a)	19%(b)	67%(c)
17	School A	18	18	64
45	School B	60	16	24
23	School C	61	17	22
13	School D	8	38	54
15	School E	7	27	67
17	School F	0	12	88
23	School G	17	17	66

(a)+4; (b)+8; (c)+8.

Friends attending the school were rarely important to the enrollment decision. About 90 per cent of the students said that having friends attending the school was not an important reason for their enrollment decision. As shown in the following table, the finding was generally consistent for all the schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
138	Weighted average of schools A through G	3%(a)	7%(b)	90%(c)
16	School A	13	13	74
35	School B	9	29	63
20	School C	5	15	80
14	School D	0	29	71
15	School E	0	7	93
17	School F	0	0	100
21	School G	14	5	81

(a)+2; (b)+4; (c)+4.

Extent Of Outside Pressure To Enroll

Student borrowers at the institutions of higher education were asked whether they received pressure from parents or school officials to enroll in the school. A very few students also listed other sources of external pressure that contributed to their enrollment decision. The results of these questions are presented below.

Almost all students said that they were not pressured to enroll by school officials. About 94 per cent of the students said that they were not pressured to enroll, 3 per cent that they were somewhat pressured, and 3 per cent that they were pressured. As shown in the table below, this response was consistent for all the schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
159	Weighted average of schools A through G	3%(a)	3%(b)	94%(c)
17	School A	6	0	94
46	School B	0	2	98
26	School C	4	0	96
15	School D	7	7	86
15	School E	0	0	100
17	School F	6	6	88
23	School G	0	4	96

(a)+4; (b)+3; (c)+5.

Most students did not feel that they were pressured by their parents to enroll in their school. About 81 per cent of the students stated that they were not pressured to enroll by their parents. This response was consistent among schools (with a slight variation at one of the "high academic" schools), as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
159	Weighted average of schools A through G	9%(a)	10%(b)	81%(c)
17	School A	6	35	59
45	School B	4	7	89
26	School C	0	15	85
15	School D	7	13	80
15	School E	7	7	86
18	School F	17	5	78
23	School G	0	4	96

(a)+6; (b)+5; (c)+8.

Adequacy Of Information About The School

Student borrowers were asked about the adequacy of their information about the school before enrollment.

The information asked about included:

- The total cost to complete the program
- The length of time to complete the program
- The content and difficulty of the courses.

The results of these questions are discussed below.

About 57 per cent of the students felt that they were well informed on costs. About 57 per cent of the students felt they were well informed, 31 per cent were somewhat well informed, and 12 per cent were not well informed. There were some differences among schools; for example, as shown in the following table, at three of the schools, 18 to 27 per cent of the students did not feel well informed:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
160	Weighted average of schools A through G	57%(a)	31%(b)	12%(c)
17	School A	53	29	18
47	School B	74	15	11
26	School C	65	27	8
15	School D	60	13	27
15	School E	47	33	20
18	School F	61	33	6
22	School G	68	23	9

(a)+10; (b)+9; (c)+6.

Almost all the students said they were well informed about the length of time it would take to complete the program. About 90 per cent of the students felt that they were adequately informed on this issue, and 96 per cent were at least somewhat adequately informed. As shown in the table below, there was some interschool variation on this issue, the most favorable responses (94 and 100 per cent) coming from students at "high academic" schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
160	Weighted average of schools A through G	90%(a)	6%(b)	4%(c)
17	School A	76	12	12
47	School B	81	15	4
26	School C	73	23	4
15	School D	73	20	7
15	School E	100	0	0
18	School F	94	0	6
22	School G	82	14	4

(a)+4; (b)+2; (c)+4.

Over half the students felt that they were well informed about the content and difficulty of the courses. About 57 per cent of the students said that they were well informed before enrollment about the content and difficulty of the courses; about 14 per cent said that they were not well informed. The differences among schools were primarily in whether the students felt well informed or somewhat well informed. Those who felt they were not well informed ranged from 7 to 27 per cent, as shown below:

		<u>Responses (Per Cent)</u>		
<u>N</u>	<u>Respondent Group</u>	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
160	Weighted average of schools A through G	57%(a)	29%(b)	14%(c)
17	School A	53	24	24
47	School B	47	38	15
26	School C	50	35	15
15	School D	47	27	27
15	School E	53	40	7
18	School F	61	22	17
22	School G	68	18	14

(a)+10; (b)+9; (c)+6.

UNDERSTANDING OF THE LOAN

This subsection discusses the student responses to the questions about their understanding of their FISLP loan obligations, including:

- Knowledge of the repayment terms
- Awareness of their obligation to inform the school of address changes
- Feeling that they are well informed about the loan
- School responsiveness to their questions about the loan.

Repayment Terms

Student borrowers were asked to respond to a series of questions on their knowledge of their rights and responsibilities concerning their loans. Issues explored concerned their understanding of the student's personal responsibility for repaying the loan, the start of the repayment cycle, the amount of monthly payment for the FISLP loan, and whether graduating and going on to another school is a valid reason for deferral of repayment. The answers to these questions are discussed below.

Virtually all of the higher education students understand that they are personally responsible for repaying their loans. About 98 per cent of the students said that they were personally responsible for repaying the loans. Only 2 per cent had a different response, and all of them said that their parents were responsible (which, in many or all cases, may reflect an informal arrangement with their parents). As shown in the table below, there was little interschool variation:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
161	Weighted average of schools A through G	98%(a)	2%(b)
17	School A	100	0
47	School B	94	6
26	School C	92	8
15	School D	87	13
15	School E	100	0
18	School F	100	0
23	School G	100	0

(a)±1; (b)±1.

About 80 per cent of the borrowers were aware of when their repayment cycle begins. About 80 per cent of the students' responses were consistent with their school's policy. About 14 per cent of the students were incorrect by three months or less, and about 6 per cent by more than three months. There were some interschool variations. At one school, only 33 per cent of the borrowers were aware of the starting point; by contrast, at the six other six schools, 65 to 100 per cent of the borrowers were aware of it:

N	Respondent Group	Responses (Per Cent)		
		Correct	Incorrect By Three Months Or Less	Incorrect By More Than Three Months
143	Weighted average of schools A through G	80%(a)	14%(b)	6%(c)
15	School A	73	27	0
44	School B	82	14	4
25	School C	68	28	4
9	School D	33	44	22
10	School E	100	0	0
17	School F	76	13	12
23	School G	65	31	4

(a)+7; (b)+6; (c)+5.

Over half the students said that they had been informed by the school of the size of their monthly payments, although there were significant differences in responses among schools. About 61 per cent of the sample said they had been told what their monthly payment would be, whereas 39 per cent said they had not. There was significant interschool variation, those having been informed ranging from 29 to 35 per cent at two of the schools to 78 and 88 per cent at two others, as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
153	Weighted average of schools A through G	61%(a)	39%(b)
17	School A	47	53
46	School B	58	42
25	School C	88	12
14	School D	29	71
10	School E	40	60
18	School F	78	22
23	School G	35	65

(a)+10; (b)+10.

Students are generally aware that going on to another school is a valid reason for deferring repayment of their loans. About 81 per cent of the students knew that graduating and going on to another school was a valid reason for deferral, about 7 per cent said it was not a valid reason, and 12 per cent said they didn't know. At least 64 per cent of the students at every school were aware that this is a valid reason for deferral, as shown below:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Valid Reason</u>	<u>Not A Valid Reason</u>	<u>Don't Know</u>
158	Weighted average of schools A through G	81%(a)	7%(b)	12%(c)
17	School A	76	18	6
45	School B	67	16	17
26	School C	69	15	15
14	School D	64	7	29
15	School E	93	7	0
18	School F	78	0	22
23	School G	83	9	9

(a)+7; (b)+4; (c)+6.

Address Changes

Student borrowers were asked whether they were supposed to inform the school of an address change while they were in school and after they had left school. The results of these questions are discussed below.

Most students were aware of their obligation to notify the school of a change of address while in school. As shown in the table below, 82 per cent of the students were aware of the need to inform the school of an address change while enrolled, about 12 per cent did not know whether this obligation existed, and 6 per cent thought it did not; there were some variations among schools:

<u>Responses (Per Cent)</u>				
<u>N</u>	<u>Respondent Group</u>	<u>Yes</u>	<u>No</u>	<u>Don't Know</u>
166	Weighted average of schools A through G	82%(a)	6%(b)	12%(c)
16	School A	75	12	12
47	School B	96	0	4
26	School C	85	0	15
15	School D	67	7	27
15	School E	80	0	20
18	School F	83	11	6
23	School G	91	4	4

(a)+7; (b)+6; (c)+5.

Most students were aware of their obligation to inform the school of an address change after they had left school. About 71 per cent of the students were aware of this obligation. There were some significant differences among schools, as shown: at four schools, between 78 and 89 per cent of the borrowers were aware of it; at two schools, only 47 per cent and 56 per cent were aware:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>No</u>	<u>Don't Know</u>
155	Weighted average of schools A through G	71%(a)	11%(b)	18%(c)
16	School A	56	6	38
43	School B	84	2	14
25	School C	88	0	12
15	School D	60	0	40
15	School E	47	33	20
18	School F	89	0	11
23	School G	78	5	17

(a)+8; (b)+7; (c)+6.

Feeling That They Are Well Informed

Student borrowers were asked the extent to which they felt well informed about the terms and obligations of their loans.

Most students felt well informed about the terms and obligations of their loan. Virtually all the students felt that they were at least somewhat well informed about the terms and conditions of their loan. About 45 per cent of the students felt that they were well informed while 3 per cent said they were not well informed. There were wide variations among schools, as shown below; in particular, the "yes" response ranged from 33 to 40 per cent at four of the schools to 85 per cent at another:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
155	Weighted average of schools A through G	45%(a)	52%(b)	3%(c)
16	School A	35	65	0
43	School B	85	15	0
25	School C	69	31	0
15	School D	33	40	27
15	School E	40	60	0
18	School F	39	56	5
23	School G	65	22	13

(a)+10; (b)+10; (c)+3.

School Responsiveness To Their Questions

Students borrowers were asked whether they have questioned the school since enrollment concerning their loans and whether they have received satisfactory responses.

About 45 per cent of students have not had questions concerning their loans. As shown in the table below, the percentage of students who have not had questions ranged from a low of 27 and 35 per cent at two schools to a high of 58 per cent at one school:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Had No Questions</u>	<u>Had Questions</u>
155	Weighted average of schools A through G	45%(a)	55%(b)
15	School A	47	53
43	School B	58	42
26	School C	50	50
15	School D	27	73
15	School E	53	47
18	School F	39	61
23	School G	35	65

(a)+10; (b)+10.

About two-thirds of the students who have had questions have received satisfactory responses, although there are major variations among schools. As shown in the table below, 69 per cent of the students who have had questions received satisfactory responses from the schools, about 25 per cent received somewhat satisfactory responses, and 7 per cent received unsatisfactory responses; there were, however, some major differences among schools:

N	Respondent Group	Responses (Per Cent)		
		Satisfactory Response	Somewhat Satisfactory Response	Unsatisfactory Response
83	Weighted average of schools A through G	69%(a)	25%(b)	7%(c)
8	School A	53	37	0
18	School B	83	0	17
13	School C	62	23	15
11	School D	54	27	18
7	School E	71	29	0
11	School F	73	18	9
15	School G	67	27	6

(a)+12; (b)+11; (c)+6.

SATISFACTION WITH THE PROGRAM

This subsection discusses student satisfaction with the training they are receiving at school.

Students are generally satisfied with the training they are receiving.

As shown in the table below, about 78 per cent of the students are satisfied with the training, 16 per cent are somewhat satisfied, and only 6 per cent are not satisfied; there are only limited variations among schools:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
161	Weighted average of schools A through G	78%(a)	16%(b)	6%(c)
17	School A	71	24	6
47	School B	74	19	6
26	School C	69	27	4
15	School D	67	33	0
15	School E	87	7	7
18	School F	78	17	6
23	School G	78	17	6

(a)+8; (b)+7; (c)+5.

OTHER RELATED ISSUES

This subsection discusses student responses to the following questions:

- Whether they first had to obtain a rejection for a loan from a bank
- The adequacy of the loan.

Approximately 38 per cent of the borrowers said that they had to obtain a rejection of a student loan from a bank in order to get their loan from the school. Although U.S. Office of Education regulations require that students receive letters of rejection for a loan from two banks, about 62 per cent of the students questioned responded that they did not have to obtain a rejection. As shown in the table below, there are differences among schools; at school B, 96 per cent of the students had to obtain a rejection; at schools C and E, only 0 to 4 per cent had to do this; all the other schools were in the 61 to 83 per cent range:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>	
		<u>Yes</u>	<u>No</u>
159	Weighted average of schools A through G	38%(a)	62%(b)
17	School A	65	35
47	School B	96	4
25	School C	4	96
15	School D	73	27
14	School E	0	100
18	School F	61	39
23	School G	83	17

(a)+7; (b)+7.

About 77 per cent of the borrowers felt that the size of the loan was appropriate for their needs. As shown in the table below, 77 per cent said that the size of their loan was appropriate, 22 per cent that it was too small, and only 1 per cent that it was too large; little variation was shown:

<u>N</u>	<u>Respondent Group</u>	<u>Responses (Per Cent)</u>		
		<u>Okay</u>	<u>Too Small</u>	<u>Too Large</u>
160	Weighted averaged of schools A through G	77%(a)	22%(b)	1%(c)
17	School A	71	24	6
47	School B	81	19	0
26	School C	69	31	0
15	School D	93	7	0
15	School E	93	7	0
18	School F	67	33	0
22	School G	82	18	0

(a)+8; (b)+8; (c)+1.

In addition, appropriateness of the size of the loan did not appear to vary with the cost of the school. For the group of ten schools, the distribution of responses was not statistically different between high-, medium-, and low-cost schools.

D - SUMMARY OF OBSERVATIONS

This section presents a summary of observations, based on the findings on the proprietary schools and the institutions of higher education in the preceding sections.

1. The Predominant Factor In The Student's Enrollment Decision Is Either The Prospect Of Obtaining Related Employment Or The School's Reputation

For proprietary school students, the prospect of obtaining employment in the field of training was the predominant factor in their enrollment decision. About 92 per cent of these students felt that this factor was important in their enrollment decision, as compared with 65 per cent who felt that the school reputation was an important factor.

For graduate students at institutions of higher education, employment in the field and school reputation were of equal and considerable importance. Between 85 and 90 per cent of these students felt that these two factors were important in their enrollment decision.

Undergraduate students at "high academic" schools placed much importance on school reputation. Otherwise, however, undergraduate students placed less importance than the other groups on related employment prospects or school reputation:

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
Importance of employment prospects:			
- Proprietary school students	92%	6%	2%
- Institutions of higher education			
o All students	65	24	11
o Graduate students only	90	10	0
o Undergraduate students only	53	32	16

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
Importance of school reputation:			
- Proprietary school students	65%	34%	1%
- Institutions of higher education			
o All students	83	12	5
o Graduate students only	85	10	5
o Undergraduates at			
"high academic" schools	96	4	0
o Undergraduates at "other"			
schools	54	35	11

By contrast, the proximity of the school to the home and having friends also attending were not important factors in the enrollment decision. Proximity to the home was not important to about 70 per cent of both groups of students. Having friends also attending the school was not important to about 90 per cent of the students:

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
Importance of proximity to the school:			
- Proprietary school students	8%	21%	71%
- Institution of higher education students	14	19	67
Importance of friends also attending:			
- Proprietary school students	5	5	90
- Institution of higher education students	3	7	90

2. The Availability Of The Direct FISLP Loans Was Important In The Enrollment Decision Of About 40 Per Cent Of The Students

About 40 per cent of the proprietary school students and the higher education students said that the availability of the loan was important in their enrollment decision:

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
Importance of loan availability:			
- Proprietary school students	41%	44%	15%
- Institution of higher education students	37	31	32

In response to a different question, about 57 per cent of the proprietary school students and 50 per cent of the higher education students said they would not or probably would not have enrolled in the school without the loan.

3. About 70 Per Cent Of The Students Felt That The Size Of Their Loan Was Appropriate For Their Needs

About 77 per cent of the higher education students and 68 per cent of the proprietary school students felt that the size of their FISLP was appropriate for their needs; virtually all the other students said that the amount was too small:

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Appropriate</u>	<u>Too Small</u>	<u>Too Large</u>
Adequacy of size of the loan:			
- Proprietary school students	68%	31%	1%
- Institution of higher education students	77	22	1

4. Many Students, Particularly At Institutions Of Higher Education, Said That They Did Not First Have To Obtain A Loan Rejection From A Bank In Order To Obtain Their Loan From The School

About 62 per cent of the higher education students and 32 per cent of the proprietary school students said that they did not first have to obtain a loan rejection from a bank. This finding is an apparent contradiction of both USOE policy and the stated policies of all the schools visited, which require the student to obtain at least one letter of rejection for a loan from a bank:

<u>Issue</u>	<u>Responses (Per Cent)</u>	
	<u>Yes</u>	<u>No</u>
Had first to obtain a rejection:		
- Proprietary school students	68%	32%
- Institution of higher education students	38	62

5. Most Students Said That They Did Not Receive External Pressure To Enroll From Either School Officials Or Parents

Only about 2 per cent of the proprietary school students and 3 per cent of the higher education students (who were still in school at the time of the survey) felt that they were pressured to enroll by school officials. Only 1 per cent of the proprietary school students and 9 per cent of the higher education students felt pressured by parents:

<u>Issue</u>	<u>Responses (Per Cent)</u>		
	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
External pressure to enroll from the school:			
- Proprietary school students	28	17%	81%
- Institution of higher education students	3	3	94
External pressure to enroll from parents:			
- Proprietary school students	1	14	85
- Institution of higher education students	9	10	81

6. About 50 Per Cent Of The Students Felt That They Had Been Well Informed Before Enrollment About The Cost To Complete The Program And The Content And Difficulty Of The Courses

Only about 53 per cent of the proprietary school students and 57 per cent of the higher education students felt that they were well informed before enrollment about the total cost to complete the program. Only about 45 per cent of the proprietary school students and 57 per cent of higher education students felt that they had been well informed before enrollment about the content and difficulty of the courses. By contrast, over 90 per cent of both groups felt well informed about the length of time required to complete the program:

<u>Issue</u>	<u>Responses (Per Cent)</u>		
	<u>Informed</u>	<u>Somewhat Well Informed</u>	<u>Not Well Informed</u>
Total cost to complete the program:			
- Proprietary school students	53%	32%	14%
- Institution of higher education students	57	31	12
Length of time to complete the program:			
- Proprietary school students	95	4	1
- Institution of higher education students	90	6	4
Content and difficulty of the courses:			
- Proprietary school students	45	42	12
- Institution of higher education students	57	29	14

7. About 70 Per Cent Of The Students Are Satisfied With The Training They Are Receiving

About 61 per cent of the proprietary school students and 78 per cent of higher education students (who were still in school at the time of the survey) are satisfied with the training they are receiving. However, about 99 per cent of the proprietary school students and 94 per cent of the higher education students are at least somewhat satisfied with the training:

<u>Issue</u>	<u>Responses (Per Cent)</u>		
	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
Satisfied with training:			
- Proprietary school students	61%	38%	1%
- Institution of higher education students	78	16	6

8. Virtually All Students Understand That They Are Personally Responsible For Repaying Their Loans

About 93 per cent of the proprietary school students and 98 per cent of the higher education students responded that they were personally responsible for repaying their loans. All of the others said their parents were responsible, which may (in many cases) reflect an agreement with their parents.

9. Many Students, Primarily At Proprietary Schools, Are Unfamiliar With The Terms And Conditions Of Their Loans

About 45 per cent of the proprietary school students and 20 per cent of the higher education students did not know when (i.e., how soon after graduation) the repayment cycle for their FISLP loans begins.

About 69 per cent of the proprietary school students and 39 per cent of the higher education students said that they had not been informed of the size of the monthly payments they will need to make on their FISLP loans.

About 81 per cent of the higher education students but only 39 per cent of the proprietary school students knew that graduating and going on to another school is a valid reason for deferring payments on the FISLP loans:

<u>Issue</u>	<u>Responses (Per Cent)</u>	
	<u>Yes</u>	<u>No</u>
Know when the repayment cycle begins:		
- Proprietary school students	55%	45%
- Institution of higher education students	80	20

<u>Issue</u>	<u>Responses (Per Cent)</u>	
	<u>Yes</u>	<u>No</u>
Informed of the size of their monthly payments:		
- Proprietary school students	31%	69%
- Institution of higher education students	61	39
Aware that graduating and going on to another school is a valid reason for deferral:		
- Proprietary school students	39	61
- Institution of higher education students	81	19

In recognition of the results above, only about 26 per cent of the proprietary school students and 45 per cent of the higher education students felt that they were well informed on the terms and obligations of their FISLP loans. At the same time, however, about 89 per cent and 97 per cent of the student groups, respectively, felt at least somewhat informed:

<u>Issue</u>	<u>Responses (Per Cent)</u>		
	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
Feel that they are well informed:			
- Proprietary school students	26%	63%	11%
- Institution of higher education students	45	52	3

10. Many Students, Particularly At Proprietary Schools, Are Not Aware Of The Need To Notify The School If They Change Their Address After They Leave School

About 82 per cent of both groups of students were aware of the need to notify the school if they change their address while they are still in school. Only about 40 per cent of the proprietary school students and 71 per cent of the higher education students, however, were aware of the need to notify the school of a change of address after they leave school. This lack of awareness may contribute to school difficulties in maintaining contact with students:

<u>Issue</u>	<u>Responses (Per Cent)</u>	
	<u>Yes</u>	<u>No</u>
Notify while in school:		
- Proprietary school students	82%	18%
- Institution of higher education students	82	18
Notify when out of school:		
- Proprietary school students	40	60
- Institution of higher education students	71	29

11. About 70 Per Cent Of The Students Have Received Satisfactory Answers From The Schools To Questions About Their Loans

About 67 per cent of the proprietary school students and about 69 per cent of the higher education students have received satisfactory responses to questions asked of school officials concerning their FISLP loans:

<u>Issues</u>	<u>Responses (Per Cent)</u>		
	<u>Yes</u>	<u>Somewhat</u>	<u>No</u>
Received satisfactory responses:			
- Proprietary school students	67%	21%	12%
- Institution of higher education students	69	25	7

IV - ADMINISTRATIVE POLICIES AND PRACTICES USED BY DIRECT SCHOOL LENDERS

- Objectives And Approach
- Findings On Administrative Policies And Practices Used
By Selected Proprietary Schools
- Findings On Administrative Policies And Practices Used
By Selected Institutions Of Higher Education
- Summary Of Observations

IV - ADMINISTRATIVE POLICIES AND PRACTICES USED BY DIRECT SCHOOL LENDERS

This chapter discusses the administrative policies and practices used by direct school lenders, including proprietary school lenders and institutions of higher education lenders, in the FISLP. The chapter is divided into four sections:

- Objectives and approach
- Findings on administrative policies and practices used by selected proprietary schools
- Findings on administrative policies and practices used by selected institutions of higher education
- Summary of observations.

A - OBJECTIVES AND APPROACH

A major objective of this study was to undertake a descriptive review of the stated policies and practices used by school lenders in their administration of the FISLP. This review was to include the development of additional information for the USOE in the following areas:

- The reasons for the school's desire to become a lender under the FISLP
- The methods used to recruit students
- The admissions policy
- The approval policy for FISLP loans

- The methods used to administer FISLP loans while the student is in school
- The refund policies for students who withdraw from school
- The career placement activities
- The methods used to administer FISLP loans after the student leaves school
- The extent to which loans are serviced, warehoused (i.e., used as collateral for a loan to the school), or sold.

The review was carried out through on-site interviews with administrators at selected proprietary schools and institutions of higher education and the review of a broad range of associated documents, reports, and other written materials. The interviews with school administrators (which often included financial aid officers, bursars, treasurers, vice presidents for administration and finance, and corporate comptrollers) were designed to elicit an understanding of the school's stated administrative policies, procedures, and practices that relate directly to the FISLP loans.*

The review of the proprietary schools included all eight of the direct proprietary lenders in the FISLP and 15 of their 39 individual proprietary schools. These schools, listed in Exhibit IV-1, were selected to ensure inclusion of:

- The one school associated with each of the five single-school lenders
- Two to five schools (with different geographic, curriculum, and student body characteristics) of each of the three multiple-school lenders.

*The information gathering did not take the form of an operational audit to identify deviations from the stated policies, procedures, and practices.

PROPRIETARY SCHOOLS INCLUDED IN THE REVIEW OF
ADMINISTRATIVE POLICIES AND PRACTICES

<u>Direct Lender</u>	<u>School Name</u>	<u>Location</u>
Bell & Howell Schools, Inc.	DeVry Institute of Technology	Atlanta, Georgia
	DeVry Institute of Technology	Phoenix, Arizona
	DeVry Technical Institute	Woodbridge, New Jersey
	(Corporate Staff)	Chicago, Illinois
Coleman College	Coleman College	San Diego, California
Electronics Institute	Electronics Institute	Kansas City, Missouri
ITT Educational Services, Inc.	Bailey Technical School	St. Louis, Missouri
	ITT Business Institute	Bailey's Crossroads, Virginia
	ITT Technical Institute	Indianapolis, Indiana
	Link's School of Business	Boise, Idaho
	Youngstown College of Business	Youngstown, Ohio
	(Corporate Staff)	Indianapolis, Indiana
Katherine Gibbs School, Inc.	Katherine Gibbs School	Boston, Massachusetts
	Katherine Gibbs School	New York, New York
	(Corporate Staff)	New York, New York
Pacific College of Medical/ Dental Assistants	Pacific College of Medical/ Dental Assistants	San Diego, California
Pittsburgh Institute of Aeronautics	Pittsburgh Institute of Aeronautics	West Mifflin, Pennsylvania
San Diego College of Medical/ Dental Assistants	San Diego College of Medical/ Dental Assistants	San Diego, California

EXHIBIT IV-1

The review of the institutions of higher education, listed in Exhibit IV-2, included 16 of the 89 schools that are authorized as direct FISLP lenders. These schools were selected so as to ensure a mix of schools with different geographic, public/private, high-cost/low-cost, and high academic/other characteristics. In addition, telephone interviews were conducted with 24 other schools that are direct FISLP lenders but that were not visited. The results in these areas are detailed in the next two sections and then summarized in the final section of this chapter.

INSTITUTIONS OF HIGHER EDUCATION INCLUDED IN THE REVIEW OF
ADMINISTRATIVE POLICIES AND PRACTICES

<u>School</u>	<u>Location</u>
Abilene Christian College	Abilene, Texas
Baptist College of Charleston	Charleston, South Carolina
Creighton University	Omaha, Nebraska
Duke University	Durham, North Carolina
Embry-Riddle Aeronautical University	Daytona Beach, Florida
George Fox College	Newberg, Oregon
Harvard University	Cambridge, Massachusetts
Johns Hopkins University	Baltimore, Maryland
National College of Business	Rapid City, South Dakota
Smith College	Northampton, Massachusetts
Southeastern College of the Assemblies of God	Lakeland, Florida
Tulane University	New Orleans, Louisiana
University of Denver	Denver, Colorado
University of New Mexico	Albuquerque, New Mexico
Whitman College	Walla Walla, Washington
Yale University	New Haven, Connecticut

B - FINDINGS ON ADMINISTRATIVE POLICIES AND PRACTICES USED BY SELECTED PROPRIETARY SCHOOLS

This section discusses our findings on the administrative policies and practices of proprietary schools authorized as direct lenders under the FISLP. This section has subsections on the schools' involvement in the FISLP, recruitment methods, admissions policy, loan approval policies, in-school loan*administration methods, refund policies, career placement activities, out-of-school loan administration methods, and servicing, warehousing, and sale of loans.

The USOE has established specific policies and procedures for use by direct lenders in administering the FISLP. They are promulgated in regulations prepared by the USOE, in accordance with the relevant statutory provisions, and are contained in the FISLP Lenders Manual and supporting program directives. The proprietary school lenders develop their own internal policies and procedures on the basis of these regulations.*

INVOLVEMENT IN THE FISLP

This subsection discusses the reasons cited by the proprietary schools for their decision to become direct lenders under the FISLP.

*The policies and procedures of multischool lenders are centrally established by the corporate lender. In an effort to focus on the singularity of policies and procedures of each lender, the discussion in this section is oriented to lenders rather than to individual schools. For example, when the term "lender" is used, it may refer to a single-school lender, e.g., the Pittsburgh Institute of Aeronautics, or to several schools operated by a single lender, e.g., ITT Educational Services, Inc.

The Accessibility Of GSLP Loans To Students Varies Significantly
By State And Region

The availability of Guaranteed Student Loan Program (GSLP) loans to students varies significantly by state and region, generally in accordance with the differing policies of local banking and financial institutions as well as differing degrees of encouragement given to these institutions by state government agencies. The availability of GSLP loans ranges from poor to excellent. Many proprietary school administrators feel that, everything else being equal, their students have more difficulty than students at institutions of higher education in finding financial aid for education; in particular, they feel that banks and certain state guarantee agencies discriminate against this type of borrower.

Excellent access to student loans exists primarily in two types of cases:

1. In the District of Columbia, where a unique "loan certainty" program has been established, under which all students who reside in the District are able to obtain GSLP loans.
2. In many states where the state agency programs have been effective in encouraging banking institutions to lend to their in-state students. For example, almost one-half of the states have formal arrangements with financial institutions or use their own revenue bonds to make GSLP loans as a "lender of last resort." In many cases, banking institutions will also make loans to out-of-state students attending school in that state.

By contrast, limited access to GSLP loans exists in four general types of situations, which are particularly applicable to proprietary schools as a group:

1. In states where the guarantee agencies will not approve loans made by banks to out-of-state students

2. In states where the local banks and financial institutions have decided not to participate at all as lenders of student loans
3. In states where only a few banks participate as GSLP lenders and limit their volume by placing a ceiling on disbursements or by restricting the issuance of loans (e.g., to those students who already have an existing account relationship with the bank)
4. In the few states where state guarantee agencies raise and lend funds to students but are legislatively restricted in their volume of disbursements.

The Ability To Make Financial Aid Accessible To All Eligible Students
Is The Most Important Reason For A Proprietary School's Involvement
As A Direct Lender

The proprietary school lenders view direct lending under the FISLP as an important available source of aid to finance the education of their students. Most of the lenders also feel that they serve as a loan source of last resort under this program. As a result, the decision of the schools to be in the program has two important effects:

- First, it benefits the students by reducing financial barriers to educational opportunities. The importance of the loan from the students' perspective is shown in the in-school borrower survey (in Chapter III of this report), where about 22 per cent of the borrowers stated that they definitely would not have attended the school if they had not received the loan and another 35 per cent said they probably would not have attended.
- Second, it benefits some of the lenders by increasing the number of students who can afford to enroll in the schools' programs.

As shown in the table below, more than 20 per cent of the students of three of the lenders have direct FISLP loans. A low percentage (up to 6 per cent) of the students of the other five lenders have direct FISLP loans. In one case, this results from a lending limitation imposed by the USOE for past weakness by the lender in loan administration; for the other schools, it is a case of their other students' being able to obtain GSLP loans from other sources:

<u>Per Cent Of Students With Direct FISLP Loans</u>	<u>Number of Proprietary School Lenders</u>
Up to 6%	5
7 to 20%	0
21 to 35%	3

Other Reasons For Lender Involvement Were Cited By The Schools As
Being Of Lesser Importance

The only other reason cited as important was the financial benefit accruing to the school through the interest subsidy and the special allowance payments. The rate of return is felt by many of the schools to be financially attractive, and the full federal guarantee means that funds placed in the program constitute an investment rather than a risk. This factor is less important, however, than the schools' desire to ensure accessibility and varies with the individual school's financial strength and sources of capital.

Some Schools Have Discontinued Or Sharply Curtailed Their Involvement
As Direct Lenders Because Of The Availability Of GSLP Loans From
Other Sources

Some schools have been able to curtail their direct loans when other sources of GSLP loans have been available to their students. For example, one lender presently authorized to lend under the FISLP has been inactive

for the past two years. Many other schools have voluntarily withdrawn from the FISLP, particularly when a state agency has been established that will ensure the availability of GSLP loans to their students.

RECRUITMENT METHODS

This subsection discusses the recruiting methods used by the schools.

The Recruiting Programs Vary Widely Among Schools

The proprietary schools employ a variety of recruiting programs, which often include mailings to prospective students, high school visits, student home visits, school orientation visits, advertising, and other efforts to attract students. In all cases, the primary recruiting effort focuses on recent high school graduates, recognizing that this group comprises the most promising prospects for enrollment at the proprietary schools. The scope and content of the different recruitment efforts are discussed below:

- Mailings of information in response to write-in or call-in inquiries from potential students are used by all the lenders. Catalogs, admissions forms, and descriptive brochures are typically used. Four of the lenders also use unsolicited direct mailings to get recruiting information to potential students. For example, one of the schools routinely obtains the names of the current year's high school graduates from the county school system and sends a mailing to them.
- Visits to high schools are made by five of the eight proprietary lenders; these visits are confined to their schools' primary marketing areas. At these visits (usually arranged through high school guidance departments), recruiters give potential students written and oral information, answer their questions, and attempt to interest them in follow-up visits to the school.

- Visits to the students' homes are used actively by three lenders (all of which had average or above average default rates), infrequently by two others, and not at all by three. These visits are intended to explain a school's program to a potential student and his or her family. An objective of the recruiter is to "close" the enrollment of the student by accepting an application and deposit while making the home visit.
- School orientation visits, in which a student comes to the school to discuss the program and become familiar with the facilities, are allowed by all the schools. Where these facilities are impressive (e.g., word processing centers or electronics laboratories), such visits are actively encouraged.
- Advertising is placed in various media (as discussed next in this section).

In addition, one school holds an annual recruiting seminar to orient high school guidance counselors to the programs that it offers. The school views the seminars as important in developing a positive rapport with counselors, who are in a position to recommend the school's programs to potential students. Another school provides an annual salary survey of firms in its metropolitan area in an effort to provide job market information and promote its name for subsequent placement relations.

The recruiting staff for a school varies from about one-half FTE (full-time-equivalent) position at one school to seven recruiters at another (one lender has a national staff that is not identified by individual school). At all schools, a designated person, usually supported by a professional and clerical staff, is responsible and reports to the head of the school.

Advertising And Promotional Practices Of Proprietary Schools Vary Significantly And Do Not Appear To Be Related To The Student Aid Programs

Proprietary lenders use an array of advertising media and promotional practices to attract students. The practices do not, however, appear to be directly related to the FISLP or other student financial aid programs. They also do not appear to include past abusive techniques (e.g., including a "free" color television as part of the enrollment package) that were cited by the Federal Trade Commission in its 1976 report Proprietary Vocational and Home Study Schools.

Proprietary lenders used several media to advertise their programs:

- Newspaper or magazine advertisements, either classified or block ads, were used by all the lenders as the foundation of the advertising program. At least three lenders have advertising agencies under contract to prepare the copy for their advertisements. Two lenders place advertisements in national magazines oriented to very specific audiences, e.g., aviation or electronics technology. At least one lender places advertisements in high school newspapers.
- Television or radio advertisements are used by three lenders. A number of the other lenders are interested in television and radio spots but have been dissuaded by the high cost.
- "Yellow Page" advertisements were used by most of the proprietary lenders. Typically, the purpose of these advertisements was to attract potential students as well as to provide information to vendors and other business contacts.

Compensation Programs For Recruiters Range From Straight Commission Plans To Straight Salary Plans

Compensation programs for recruiters (also called admissions representatives) tend to fall into two categories:

- Straight salary programs are used by two lenders. Under this arrangement, the compensation of the admissions representatives is not directly adjusted by the number of students who enroll during a given period.
- Incentive programs are used in some fashion by six of the lenders. This approach provides admissions representatives with additional direct compensation based on the number of students who enroll during a given period. The incentive programs range from one in which the base salary is 75 per cent of estimated total compensation to a system that is entirely based on commission, with no base salaries. At one of the schools, the incentive pay is based on the academic performance of the students who enroll.

ADMISSIONS POLICY

This subsection discusses the admissions policies of the schools.

A High School Diploma Or Equivalency Diploma Is Generally Required For Admission To Any Of The Proprietary Schools

All of the proprietary schools have a stated policy that requires a high school diploma or a general equivalency diploma as a prerequisite for admission. At the same time, all but two of the lenders will waive the diploma requirement if other factors demonstrate that the applicant, in the opinion of the school, has the potential to complete the course. For example, at

least three lenders will waive the guidelines for students who have significant work experience that indicates an ability to do the work and who successfully complete an aptitude test.

Past Academic Achievement Is Considered By Only A Few Of The Lenders As A Criterion For Admission

Five of the eight lenders are not directly concerned with the prior academic achievement or accomplishment of the applicant. The high school or general equivalency diploma is used to meet this aspect of the entry requirement. The other three lenders are concerned to varying degrees with the importance of prior academic work:

- One lender requires a solid record of academic achievement in high school and appears to be at least as demanding as many institutions of higher education.
- Two other lenders place special emphasis on the academic achievement of applicants who want to enter certain of their programs, particularly students entering highly technical programs that serve as prerequisites for later transfer to degree-granting programs.

Aptitude Tests Are Required By All The Proprietary Lenders, But Their Use Varies Widely

Aptitude tests are used as a prerequisite or adjunct to admission by all the proprietary lenders. The tests, which in most cases have been purchased by the lender from outside testing service companies, provide a standardized measure for comparing the potential of applicants. The types of tests used by the lenders include measures of basic reasoning and quantitative abilities, such basic skills as reading and spelling, and skill-specific tests, such as typing.

The applied use of aptitude tests by the schools varies widely:

- All of the lenders use the tests as a factor in the admissions process and will not enroll applicants in the program if they fail them. However, while about 40 per cent of the applicants at one school fail the test and are denied admission, typically less than 10 per cent of the students are turned down on this basis.
- At least one school allows an applicant who does not pass the test on the first try to retake it.
- One lender requires students to take an aptitude test after they have been enrolled for six weeks in the course.* Students who fail the test (about 10 per cent) must obtain remedial assistance and retake the test before continuing with the second phase of the school's program.

Other Requirements For Admission Are Used By Only One Or Two Schools

The high school diploma and aptitude test scores constitute the primary admissions requirements. A few of the schools, however, have adopted additional requirements, as outlined below:

- One lender runs a credit check on every applicant and denies admission if the applicant has a poor credit record.
- One lender requires interviews of all students (unless an extraordinary geographic distance is involved) and uses the interview as a primary screening device. Potential students who lack the poise and interpersonal skills sought by the lender are dissuaded from pursuing admission.

*This lender also allows applicants to take the test before admission. If they score sufficiently high on the test (which is intended to measure intelligence, mechanical ability, and general knowledge) and have prior post-secondary education, they can waive the first six weeks of course work. Only about 10 per cent of the students take the test before admission, and about 85 per cent of these attain a sufficiently high score.

- At least two of the lenders deny admission if they feel that the applicant has an "incorrect" attitude.
- One lender requires previous typing experience and discourages applicants who are excessively overweight (when this will be a major difficulty in their securing employment in this particular field).

LOAN APPROVAL POLICIES

This subsection discusses the loan approval policies of the schools.

The Loan Approval Policies Of The Proprietary Schools Require Adherence To The USOE Guidelines, Supplemented In Some Cases By Financial Credit Checks

In order to give a student an FISLP loan, a proprietary lender must determine that the applicant meets the loan criteria established by the U.S. Office of Education. These criteria include:

- Current enrollment on at least a half-time basis
- A maximum loan of \$2,500 per year, and a maximum of \$7,500 for a program of three years or longer
- A record of denial to the borrower of a GSLP loan by a bank or other eligible institution
- An acknowledgment by the borrower of the rights and responsibilities incurred when an FISLP loan is accepted
- Payment of an insurance premium of 0.25 per cent of the face value of the loan.

All the proprietary schools state that they use the criteria above as the core of their own loan approval policies. Adherence to these criteria ensures that they will be found in compliance on this issue on any subsequent audits by the USOE.

In addition, two lenders perform credit checks on all of their applicants for loans. At least two other lenders will not grant loans to students who have an "incorrect attitude" that, to the school, would indicate a lack of interest, motivation, or responsibility concerning the loan.

FISLP Loan Application Denials Are Infrequent

Denials of loan applications are infrequent, involving less than 2 per cent of the applicants. The primary reasons for denial are, depending upon the school, the existence of a poor credit record, an "incorrect" attitude, or denial of insurance on a loan by the USOE because of a previous default by the student on a student loan.

The Need For The Students To Have Already Received A Denial Of A GSLP Loan Request Is Often Questioned By The Schools

Under the present USOE regulations, students must state that they have been denied a GSLP loan by a bank or other eligible institution; the statement takes the form of either a signed affidavit by the student or a signed denial statement from the lending institution. Many of the proprietary schools consider the requirement cumbersome and embarrassing to the students, particularly when it is already known and acknowledged that lenders in the area are unwilling to make the GSLP loans.

The regulation on receiving a denial is often not followed. As noted in Chapter III, 32 per cent of the proprietary school students said that they did not first have to obtain a rejection from a bank on a GSLP loan application.

IN-SCHOOL LOAN

ADMINISTRATION METHODS

This section discusses the in-school loan administration of the school, from the time the student applies for an FISLP loan until the student either graduates or withdraws from the school.

The Schools Perform A Common Role In Administering Loans For In-School Students

In-school loan administration involves a common and virtually identical set of policies and procedures at each of the proprietary schools. It includes the following primary responsibilities:

- Apprising students of the availability and the provisions of FISLP loans
- Assisting students in obtaining loans (e.g., helping them to complete the FISLP loan application, ensuring that a GSLP loan denial has been obtained from another lender, sending the completed applications to the USOE processing center)
- Informing students of their rights and obligations under the FISLP
- Disbursing the loan to the student, after receiving authorization from the USOE
- Informing students about the FISLP and responding to their questions
- Maintaining a current file of borrower information, including current address, original loan application, disbursement records, and other documents
- Ensuring that current borrowers are presently enrolled as students and are attending classes
- Informing students, through an exit interview, of the loan rights and obligations that continue after a borrower is no longer enrolled as a student
- Transferring a borrower file to the out-of-school category once the borrower is no longer a student

While the role and the responsibilities are similar in all the schools, there are some differences (outlined below) in the practices that each school actually follows.

All The Schools Have A Focal Point For Administration Of In-School Loans

All the schools have at least one designated person who is particularly knowledgeable about FISLP loans and who is involved in the personal interviews and other in-school loan administration activities. Most often these activities are accomplished by the financial aid officer of the school or the director of student affairs. One school has contracted with an outside servicing company to provide on-site administration of the school's financial aid program, including the administration of in-school loans. A corporate lender having more than one school typically has a separate staff at its headquarters that supports the administrative staffs at the individual schools.

All The Schools Inform Students Of Their Rights And Responsibilities Primarily Through A Restatement Of The USOE Requirements

The U.S. Office of Education has established specific requirements that lenders must meet to ensure that student borrowers are aware of and understand the rights and responsibilities that accompany an FISLP loan. These requirements, the basis of the efforts to inform borrowers at each school, include providing the following information to the borrowers:

- Their personal responsibility to repay the loan
- The beginning date and frequency of loan payments
- The annual rate of interest on the loan and the meaning of the federal subsidy
- A general explanation of the valid reasons for deferring repayment of the loan
- The requirement to notify the lender when an address change occurs.

All of the information above is contained in a statement prepared by the USOE that is given to the students as part of the loan application process.

In addition, all the proprietary lenders use personal interviews between the student and a member of their financial aid staff to provide information on the rights, responsibilities, and obligations associated with the loan. All students receive an interview concerning their loan as part of the loan application process; in many cases, these interviews are supplemented by a further discussion when the proceeds of the loan are disbursed. Three of the schools inform the students about the amount of the monthly payment on the loan.

The Method Of Disbursing Loans To The Students Is Similar

All the schools disburse the loans through a check payable jointly to the school and the student (or just to the student), which the student endorses and turns over to the school. The school then credits the student's account and cashes the check.

The Method Of Updating Address Information On In-School Borrowers

Differs Somewhat Among Schools

All the schools obtain a current address at registration and instruct the student to notify the school in case of an address change. After this, the following practices are used:

- Six of the schools take no additional action unless they are notified by the student or receive an "address correction" from the post office in response to a mailing to the student.
- At the other extreme, one school asks its students to note changes in their addresses or telephone numbers every week when their grade reports are issued to them.

- Another school requests an address update as part of a monthly student survey and whenever a student is counseled by the administrative staff.

Proprietary Schools Appear To Have Clear Guidelines For Exit Interviews For Graduates And Dropouts

All proprietary lenders have established procedures that attempt to ensure that all borrowers (graduates or dropouts) receive exit interviews before leaving school. All the schools attempt to hold personal interviews with graduating students before graduation. At least two of the schools say that students cannot graduate without an exit interview. The proportion of students that attend exit interviews is estimated to range from "a majority" at one school to 100 per cent at four schools with small numbers of borrowers. A number of the schools mail information to students who do not attend the exit interviews.

Student withdrawal is usually discovered within two weeks when attendance records are tallied (as noted, all the proprietary schools take attendance in their classes). Varying approaches are then used at these schools, as outlined below:

- At least two of the lenders first use phone calls and letters in an attempt to reach the student. They follow up with a series of letters, including a certified letter accompanied by loan summary information and forms for the student to mail in if he or she is not able to visit the school for an exit interview.
- At least one lender sends a full packet of loan obligation and repayment information to the last known address of the students. Less than 10 per cent of these borrowers actually participate in an exit interview.

Four of the schools have few dropouts who have loans; they try to reach the students by telephone or mail.

In the typical exit interview, a student is again given a written explanation of rights and obligations under the loan program, as well as a repayment schedule and supplementary information. The written material is complemented by an oral presentation by a school staff member who emphasizes the need for repayment, the need to inform the school of address changes, and the person to get in touch with if problems arise. For example, one of the schools tells students that they will be notified 30 days before their first payment is due. The student is usually asked to sign a form verifying that the exit interview has occurred.

Certain Lenders Have Unique Loan Administration Activities As A Part Of Their Agreement With USOE

Certain lenders who have had high rates of default or delinquency on their direct FISLP loans are governed in their making of further direct loans by a limitation agreement with the USOE. For example, one lender has agreed to:

- Allow a ten-day cooling-off (cancellation) policy for all new enrollments in its school
- Limit the use of loans to no more than 40 per cent of the cost for tuition, supplies, and fees
- Litigate a minimum of 10 per cent of the defaults on loans to graduated students.

REFUND POLICIES

This subsection discusses the refund policies of the schools.

Refund Policies Generally Reflect Either Association Policy Or State Law, Whichever Is More Liberal For The Students

The issues of refunds for students who withdraw or are terminated from education programs has received attention in several states as well as from

the Federal Trade Commission. As a result, the refund policies of the proprietary schools have become more liberal in the amount of credit given to the students.

The variations in refund policies are typically influenced by internal policies, trade association policies, and state laws. The refund policies of the eight proprietary lenders fall in the following three main categories:

- A pro rata refund policy, the most beneficial approach from the student's perspective, allows for a refund in direct proportion to the percentage of course weeks remaining. For example, if a student withdraws after one-third of the course has been completed, only one-third of the tuition is owed to the school (and the remaining two-thirds is refunded). The pro rata system is followed by two lenders as a matter of internal policy and by one other school in a multischool organization to comply with state law.
- The declining-balance policy, prescribed by the National Association of Trade and Technical Schools (NATTS) to its members, is used with minor variations by four lenders. It involves the following refund schedule:

<u>Withdrawal During</u>	<u>Per Cent Of Total Course Price Owed By Student</u>
First week of classes	10% plus \$100 withdrawal fee
First 25% of course	25% plus \$100 withdrawal fee
Second 25% of course	50% plus \$100 withdrawal fee
Remainder of course	100%

- A "less beneficial" declining-balance policy is used by two lenders:

<u>Withdrawal During</u>	<u>Per Cent Of Total Course Price Owed By Student</u>
First week of classes	10% plus \$25 withdrawal fee
Next three weeks of classes	20% plus \$25 withdrawal fee
First 25% of course	45% plus \$25 withdrawal fee
First 50% of course	70% plus \$25 withdrawal fee
Remainder of course	100% plus \$25 withdrawal fee

In accordance with USOE regulations, all the schools have a policy of first applying any refunds due the student to the principal balance of that student's loan. The objective of this policy is to reduce the outstanding loan as much as possible.

The School Refund Policies Do Not Distinguish Between Students With FISLP Loans And Other Students

All students at a proprietary school are covered by the same school refund policy, whether or not they have an FISLP loan.

All The Schools Take Class Attendance, Which They Use As The Primary Method Of Determining That A Student Has Withdrawn

All the schools take attendance and use some type of centralized tabulation. Their policies, consistent with USOE regulations, are to terminate students no later than 14 calendar days after their last date of attendance. At the time that the termination takes place, a decision is made on the amount of unused tuition to be credited to the student's account. One lender only charges students up to the last calendar week that they attend.

CAREER PLACEMENT ACTIVITIES

This subsection discusses the career placement activities of the proprietary schools.

Proprietary Lenders, As A Group, Have Significant Placement Programs
For Graduates

Career placement, including general career guidance, coordination of employer contacts, and interviews at the school, is included in all the proprietary school programs. A placement staff is designated at all the schools and includes from one-half FTE at one school to four FTEs at another.

There are some variations among the schools in the area of career guidance:

- Six of the lenders have special career orientation programs for students, in which students are exposed to resume preparation, interviewing techniques, and related skills. At one of these schools, television tapes are used to teach interview techniques.
- At least one lender has a personal interview for each student with the chief placement officer. The interview focuses on identifying specific career opportunities that appear best suited to the student.
- At least three lenders help students find part-time employment while attending school. One of the three has a full-time employee to coordinate the part-time placement program. By contrast, at least one of the schools discourages students from taking part-time jobs while in school.

Coordination of employer contacts and interviews is undertaken in some fashion by each of the eight schools. All take job vacancy information and get in touch with appropriate students. Some of the schools match employers with selected students. One lender prepares and maintains a summary of jobs available nationwide for program graduates. Others invite recruiters to

establish a major interviewing schedule. At least one school tailors its interview schedules to the needs of the students: students are allowed to miss class or, if a major recruiter is making a presentation, class times are adjusted to accommodate the recruiter.

In addition, many of the schools feel that they have been especially successful in establishing long-term relationships with potential employers. These schools cite a number of employers who, at the beginning of a school year, inquire about the number of students likely to be available for interviewing at the end of a term.

Success in placement is perceived to fluctuate widely with local employment conditions. For example, one school produces more data processing persons than the local metropolitan market can absorb and, as a result, provides students with a significant amount of information on nationwide employment opportunities. Another lender uses its widespread network of schools to provide a nationwide orientation to job opportunities. A more typical case, however, is at other schools where students are trained for skilled positions but cannot be protected from the unpredictability of employment in those markets.

Schools maintain placement data in accordance with USOE regulations. These data, compiled in the schools, indicate very high placement success (over 95 per cent) for students who have sought placement assistance. The accuracy of the data, however, could not be readily determined within the framework of this study.

• OUT-OF-SCHOOL LOAN ADMINISTRATION METHODS

This subsection describes the policies and practices of the schools in their administration of out-of-school loans. The out-of-school period begins when a student graduates or withdraws from the school and ends when a loan is paid in full or when a claim for payment of the loan is paid by HEW.

All The Schools Have A Focal Point For The Administration Of Out-Of-School Loans

Each of the schools has a designated person with responsibility for the administration of loans to students who are no longer in school.

The Schools Have Differing Approaches To Administering Out-Of-School Loans

Each of the proprietary lenders uses one of three approaches in out-of-school loan administration:

- Centralized administration, used by the three multischool lenders, involves the transfer of all responsibilities from the school to the corporate lender. Thus, when a student graduates or withdraws from any of their proprietary schools, the student file (including disbursement records, current address, exit interview documentation, and other relevant information) is forwarded to the central office. The central office is then responsible for all billing, collection, USOE reporting, and claims submission. Two of these three lenders have sold the loans to a third party but still administer them as a contractual service for the third party.
- Individual school administration, used by three of the single-school lenders, places the responsibility for all loan administration on a staff at the school.
- Outside servicing, used by two of the single-school lenders, involves contracting with outside companies for substantial administrative assistance. As discussed in more detail later in this section, one of the schools has arranged with a savings and loan institution for the billing and processing of payments but retains the other loan administration activities. Another school

contracts with a servicing company that manages all aspects of the school's financial aid program, including the administration of out-of-school FISLP loans.

The Procedures For Maintaining Current Addresses Of Out-Of-School Borrowers Are Similiar

All the lenders felt that keeping track of students, especially students who do not want to be located, is very difficult. The procedures used by the lenders in their attempt to obtain updated addresses on students are basically similar:

- At the exit interview, all the students are asked to provide their current/and or forwarding addresses (as noted, however, some students do not attend the exit interview).
- Some form of notification is sent to the student on or about the time when the first loan payment is due. At least four lenders have standard address change forms that are included in the coupon books or payment forms provided to borrowers.
- Standard tracking practices, such as searching telephone books and local directories, inquiring of relatives and known recent employers, and requesting address corrections from the post office, are widely used when the student cannot be located.

These basic techniques are supplemented by some of the lenders:

- Two lenders send alumni newsletters to their students during and after this interim period. Both mailings use address correction requests, so that the school is notified if a change of address is left with the post office. One of these lenders also sends a statement of the loan account to the student during this period; the other includes an address change card.

- At least two lenders query the placement office whenever a current address is not available, recognizing that some students keep the placement office informed of their location when they are considering a job change. One of these lenders has an address change form that graduates who are in the job market send to the placement office; upon receipt, the information is forwarded to the loan administration staff. Three of the lenders place a high proportion of their students in jobs, track their employment, and feel that they are able to reach a student if necessary.

Collection Agencies Or Lawyers Are Not Often Used By The Lenders To Assist In The Collection Process

Proprietary lenders do not generally use collection agencies or lawyers to assist in the collection of delinquent FISLP student borrower accounts. Of the eight lenders, one uses a collection agency, one used outside lawyers, and one uses both.

The two lenders using collection agencies feel that their own collection units are not sufficiently staffed to allow for persistent and personal follow-up of overdue accounts. The other six feel that the use of collection agencies is not warranted. Two of these lenders have not had any loans that have been 120 days past due. Two other lenders expressly stated that their collection staffs are more effective than outside agencies and that management control is better maintained by making collection solely an in-house function.

Two lenders use outside lawyers for collection, each using a firm that is already on retainer as attorneys to the organization. One lender has few borrowers in default but has the law firm send all of them collection letters. The sending of collection letters on law firm letterhead is designed to place

the implicit threat of litigation in their minds, and the approach is viewed as having been successful. The law firm has not been involved in further activities, such as litigation. The other lender stated that it uses the law firm to send letters to about 10 per cent of the graduates who are in default; no information had been tabulated on the success of this approach.

Proprietary Lenders Generally Follow USOE Requirements And Submit Claims When FISLP Loans Are 120 Days Past Due And In Default

Proprietary lenders generally submit a FISLP account for claims payment when it is 120 days past due and in default. The principal reason for attention to the 120-day criterion is the strong emphasis by the USOE on timely submission of claims. Three situations pertaining to the submission of accounts in default were noted:

- Two lenders have not had any accounts that have been delinquent for 120 days.
- Two lenders, both with small FISLP enrollments, will hold an account past 120 days if "working" the account has the potential for repayment. The primary reasons for this appear to be a belief that they will be able to collect from the student and some reluctance to blemish their low claims record. One of these schools holds all accounts for at least 180 days.
- The other four lenders review each account on the 120th day of delinquency or soon after and submit it for payment except in unusually strong and compelling circumstances. If, for example, a borrower has promised payment within two weeks, the submission of a claim is deferred.

SERVICING, WAREHOUSING,
AND SALE OF LOANS

This section discusses the servicing, warehousing, and sale of loans by the school lenders.

Loan servicing is the administration of student borrower files or the collection and processing of borrower payments of principal and interest by an outside party under contract to a school.

Warehousing is the use of loans made by the school as collateral for borrowing money from a financial institution. This action is typically undertaken by the school lender with either a bank or the Student Loan Marketing Association (SLMA); the latter generally requires that the school provide collateral of FISLP loans equivalent in face value to 120 per cent of the funds borrowed. The loans continue to be owned by the school and therefore to be the school's responsibility for administration, claims, and collection. Some loan-collateral agreements may specify that a third party administer the loan.

The sale of loans involves their outright transfer from a school lender to a third party, such as a banking institution or the SLMA. The loans are sold at face value, as the USOE requires, and the responsibility for future administration of the loans is transferred to the purchaser.

Only Two Proprietary Lenders Use Outside Servicing Companies To Administer Their FISLP Loans

As noted earlier, one lender uses a contract management company for many aspects of its student financial aid program, including the administration of its in-school and out-of-school loans. Under this arrangement, the company has a full-time person at the school to provide liaison with the students (assist in the application process, answer their questions, etc.). Another lender with a small portfolio uses a local savings and loan association for the preparation of "coupon payment" books, billing, and processing of payments. Loan administration while the student is in school and all collection activities are still performed by the school.

The six other lenders do not use outside servicing companies for their FISLP loans. The reasons for this decision, outlined below, vary. A

common theme is that the decision not to use outside servicing is based on cost considerations and the desire to retain management control of the administrative process.

- Two of the lenders have very large portfolios that include the FISLP loans of several thousand students. These lenders have established their own sophisticated and extensive administrative capabilities under their own direct and immediate control.
- One lender had used outside servicing for two years and was dissatisfied with its performance; accordingly, it switched to an in-house basis two years ago.
- One lender has a small portfolio but has its own sophisticated system.
- The two other lenders have small loan portfolios that, in the view of management, do not warrant outside help.

Only Two Lenders Are Presently Involved Or Have Been Involved In The Warehousing Of Loans

Warehousing is or has been used by two of the school lenders, the transactions involving loans from the SLMA. In both cases, the warehousing represents a portion of their total FISLP loan portfolios. The other proprietary lenders do not warehouse loans, because of the size of their loan portfolios (i.e., most are too small to be of interest to a financial institution), alternative financing opportunities presented by their corporate structure, the availability of sufficient internal cash flow, or the decision to sell loans instead.

Only Two Proprietary Lenders Are Involved In The Sale Of Loans

Two of the proprietary school lenders sell student loan portfolios containing FISLP loans to financial institutions. Within the past 18 months, both lenders have consolidated their loan portfolios for sale, independently, to a financial institution that offered an attractive arrangement. Both sold the

loans to the institution for face value, with repurchase required only if a subsequent claim filed with HEW is denied because of the fault of the school lender. Both lenders are making large volumes of new loans, which they sell to the financial institution shortly after receiving approval of the loan from the USOE. One of the lenders that sell loans has an agreement to transfer a loan to the buyer as soon as the loan is authorized by the USOE. Consequently, in both cases, the school lender effectively has a minimal portfolio of FISLP loans.

Under the present agreement with the purchaser, both lenders currently administer the loan portfolios for the financial institution for a fee. The administration, which now covers all in-school and out-of-school activities (including collection), will probably be assumed by the financial institution within the next few years. Both lenders follow a policy of informing a student borrower when a loan is made of the lender's prerogative to sell it.

The other six school lenders do not sell their loans to third parties. One lender does not sell loans as a matter of corporate policy. The other five do not sell loans because they feel that their portfolios are too small to be attractive or because internal analyses they have performed indicate that sale would not be financially advantageous.

C - FINDINGS ON ADMINISTRATIVE POLICIES AND PRACTICES USED BY SELECTED INSTITUTIONS OF HIGHER EDUCATION

This section discusses our findings on the administrative policies and practices of institutions of higher education that are authorized as direct lenders under the FISLP. The section has subsections on involvement in the FISLP, recruitment methods, admissions policy, loan approval policies, in-school loan administration, refund policies, career placement activities, out-of-school loan administration, and servicing, warehousing, and sale of loans.

The USOE has established specific policies and procedures for use by direct lenders in administering the FISLP. They are promulgated in regulations prepared by the USOE, in accordance with relevant statutory provisions, and are contained in the FISLP Lenders Manual and supportive program directives. The institution of higher education lenders develop their own internal policies and procedures on the basis of these regulations.

INVOLVEMENT IN THE FISLP

This subsection discusses the reasons cited by the institutions of higher education for their decision to become direct lenders under the FISLP.

The Accessibility Of GSLP Loans To Students Varies Significantly By State And Region

The availability of GSLP loans to students varies significantly by state and region, generally in accordance with the differing policies of local banking and financial institutions as well as differing degrees of encouragement given to these institutions by state government agencies. The availability of GSLP loans ranges from poor to excellent.

As noted for the proprietary schools, excellent access to student loans exists primarily in the District of Columbia, where a unique "loan certainty"

program has been established, and in a number of states where the state agency programs have been effective in encouraging banking institutions. Limited access to GSLP loans exists where the state guarantee agencies will not approve loans made by banks to out-of-state students, in states where the local banks and financial institutions have decided not to participate or to participate on a limited basis, and in the few states where the state guarantee agencies are legislatively restricted in their overall disbursements.

The Ability To Make Financial Aid Accessible To All Eligible Students
Is The Most Important Reason For Involvement By Institutions Of Higher
Education As Direct Lenders

All the college and university lenders view direct lending under the FISLP as an important and available source of aid to finance the education of their students. The lenders feel that they provide a loan source of last resort under this program. As a result, the decision of the institution to be in the program has two important effects:

- First, it benefits the students by reducing financial barriers to educational opportunities. The importance of the loan from the students' perspective is shown in the in-school borrower survey (in Chapter III of this report), in which about 29 per cent of the borrowers stated that they definitely would not have attended the school if they had not received the loan and another 21 per cent said they probably would not have attended.
- Second, it benefits some of the schools by increasing the number of students who can afford to enroll in their programs.

As shown in the table below, there are 5 schools in which at least 9 per cent of the students have direct FISLP loans. The other 11 schools have a

lower percentage of students with direct loans. In two cases, this is because of a lending limitation imposed by USOE for past weaknesses by the schools in their loan administration; for the other schools, it is a case of their other students' being able to obtain GSLP loans from other sources:

<u>Per Cent Of Students With Direct FISLP Loans</u>	<u>Number Of School Lenders</u>
Up to 8%	11
9 to 16%	4
17 to 25%	1

Other Reasons For Involvement As Lenders Were Cited By The Schools
As Being Of Lesser Importance

One reason cited as important to many of the schools was the financial benefit accruing to the school through the interest subsidy and the special allowance payments. The rate of return is felt by many of the schools to be financially attractive, and the full federal guarantee means that funds placed in the program constitute a very low-risk investment. At least three schools use their endowment funds to finance a portion of their FISLP loans; the interest earned on the FISLP loans is transferred and credited to the endowment accounts.

In addition, at least three of the schools feel that their involvement allows them to limit the level of loan funds to their students. These limits (\$1,500 to undergraduates at one school, \$2,000 to freshmen at another schools, and \$2,000 to most students at another school) are below the USOE ceiling for GSLP loans and are viewed by the schools as an attempt to avoid overburdening their students with excessive financial obligations.

Both of these factors are less important, however, than the schools' desire to ensure accessibility, and they vary with the individual schools' financial strength and sources of capital.

Some Schools Have Discontinued Or Sharply Curtailed Their Involvement As Direct Lenders Because Of The Availability Of GSLP Loans From Other Sources

Some schools have been able to curtail their direct loans when other sources of GSLP loans have been available to meet student needs. One institution of higher education, for example, has had a high lending authorization for several years but has chosen not to disburse any FISLP funds to its students. Two other schools that have been active as direct lenders are phasing out of the FISLP as state agency programs come into operation.

RECRUITMENT METHODS

This subsection discusses the recruiting methods used by the colleges and universities.

The Recruitment Programs Of The Schools Are Similar

Colleges and universities have similar recruiting programs, which often include mailings to prospective students, high school visits, school orientation visits, and other efforts to attract students. In all cases, the primary recruiting effort focuses on recent high school graduates, recognizing that this group comprises the most promising prospects for enrollment at the schools. The scope and content of the various recruitment program efforts are discussed below:

- Mailings of information in response to write-in or call-in inquiries from potential students are used by all the schools. Catalogs, admission forms, and descriptive brochures are typically mailed.

Some schools also use unsolicited direct mailings to get recruiting information to potential students.

- Visits to high schools are made by all the schools. At these visits (usually arranged through high school guidance departments), recruiters give potential students written and oral information, answer questions, and attempt to stimulate interest in follow-up visits to the school. The visits tend to be concentrated in a school's primary marketing areas; some lenders visit states that are geographically distant from the school (e.g., Northeastern states are considered primary sources of students by many schools in the Southeast).
- School orientation visits, in which a student comes to the school to discuss the program and become familiar with the facilities, are actively encouraged by the schools.

In addition, a number of schools seek referrals from alumni, use some limited advertising (discussed next in this section), and generally promote the school's name within the local community. To a great extent, the schools rely on their reputations for education to attract a continuing group of potential students. Other methods, such as visits to a student's home, are rarely used.

The recruiting staff for a school varies from three FTE (full-time-equivalent) positions at one school to more than 15 recruiters at another. At all schools a designated person, usually supported by a professional and clerical staff, is responsible for recruiting. Typically, the staff is a separate department within a student service group.

Advertising And Promotional Practices Of Institutions Of Higher Education Are Limited And Do Not Appear To Be Related To The Student Aid Programs

Colleges and universities make limited use of advertising and promotional practices to attract students. The prime medium is the placement of ads in newspapers or magazines, usually in an education section. This is done by most of the schools, particularly to attract students for summer programs. The ads are frequently placed in wide-circulation newspapers that reach a major market of potential students. At least two of the schools have advertising agencies under contract to prepare the copy for their advertisements.

"Yellow Page" ads are used by only one school, and television and radio ads are not used at all. Other promotional efforts are limited to institutional promotion of the school in connection with issues under general public discussion, undertaken particularly by the "high academic" schools.

Compensation Programs For Recruiters Are Usually Straight Salary And Benefits Packages

All but one of the schools compensate admissions representatives on a straight salary basis, under a plan that is standard for the school's non-faculty staff; in these cases, no form of commission is used. One school uses a base salary plus commission plan.

ADMISSIONS .
POLICY

This subsection discusses the admissions policies of the schools.

A High School Diploma Or Equivalency Diploma Is Required For Admission To Any Of The Schools

All the schools have a stated policy that a high school diploma or a general equivalency diploma is a prerequisite for admission.

Past Academic Achievement Is Considered An Important Criterion For Admission By Many Of The Schools

Academic achievement is important in admissions decisions at many of the colleges and universities. Four of the schools have very demanding admissions standards that require high academic achievement in secondary school, high academic aptitude evidenced by an applicant's score on standardized aptitude tests, and personal achievement. Seven schools have moderately demanding admissions criteria that include academic achievement, aptitude test scores, and personal achievements but have lower thresholds for admission than the higher standards group.

In contrast, five schools have limited admissions requirements and will accept most high school graduates. One school has an absolute "open enrollment" policy for any student who has finished high school and wants to enroll.

Aptitude Tests Are Required By Almost All Of The Institutions Of Higher Education Lenders, But Their Use Varies

All but one of the schools require that applicants take either the S.A.T. (Scholastic Aptitude Test) or the A.C.T. (American College Test) as part of the admissions process. The tests are intended to measure general aptitude, including basic reasoning and quantitative ability and such basic skills as reading and word usage.

The use of the test results by the schools in the admissions process varies. A high score is most important at the "high academic" schools. In contrast, schools that place less importance on the scores use the tests to decide if the student should be required to enroll in remedial courses.

One school does not require any aptitude tests.

Other Requirements For Admission Vary Among The Schools

The motivation of an applicant is viewed by some lenders as a particularly important element of the admissions decision. Some of the schools

require a successful interview with a member of the admissions staff or an alumnus. At one of the schools, an interest in religious education is a prerequisite for admission.

LOAN APPROVAL POLICIES

This subsection discusses the loan approval policies of the colleges and universities.

The Loan Approval Policies Of The Institutions Of Higher Education Require Adherence To The USOE Guidelines, Supplemented In Some Cases By Financial Credit Checks

In order to give a student an FISLP loan, a college or university lender must determine that the applicant meets the loan criteria that have been established by the USOE. These criteria include:

- Current enrollment on at least a half-time basis
- A maximum loan of \$2,500 per year (\$5,000 per year for a graduate student), and a maximum of \$7,500 for a program (\$15,000 for a graduate student)
- A record of denial of a FISLP loan to the borrower by a bank or other eligible institution
- An acknowledgment by the borrower of the rights and responsibilities incurred when an FISLP loan is accepted
- Payment of an insurance premium of 0.25 per cent of the face value of the loan.

All of the college and university lenders purport to adhere to these criteria and use them as the core of their own loan approval policies.

Four of the schools were seen as having policies that significantly supplement the core policies of the USOE guidelines:

- One school obtains and checks the financial references of the applicant before approving an FISLP loan. This policy, which has been used for the last three years, is designed to avoid lending to students who are high credit risks.
- One school limits loans to many of its students to \$1,500 per year rather than the USOE-authorized limit of \$2,500. This internal policy decision is intended to minimize the overall loan burden of the student so that subsequent payments are not excessive in relation to expected income. This school also requires a formal needs test and will not make a loan unless clear financial need is shown.
- One school limits loans to freshmen to \$2,000 rather than the USOE-authorized limit of \$2,500.
- Another school uses a \$2,000 limit for all its undergraduate students and most of its graduate students.

Once a school's criteria have been met, the primary reason for denial of a loan by a school is denial by the USOE because of a previous default by the student on a student loan.

The Need For The Students To Have Received Denial Of A GSLP Loan Request Is Often Questioned By The Schools

Under present USOE regulations, students must state that they have been denied a GSLP loan by a bank or other eligible institution; the statement takes the form of either a signed affidavit by the student or a signed denial statement from the lending institution. Many of the schools consider the requirement cumbersome and embarrassing to the students, particularly when it is already acknowledged that lenders in an area are unwilling to make GSLP loans.

The regulation on receiving a denial is often not followed. As noted in Chapter III, 68 per cent of the higher education students said that they did not first have to obtain a rejection from a bank of a GSLP loan application.

IN-SCHOOL LOAN ADMINISTRATION

This subsection discusses the in-school loan administration of the FISLP from the time the student applies for the loan until the student either graduates or withdraws from the school.

The Institutions Of Higher Education Perform A Common Role In Administering Loans For In-School Students

In-school loan administration involves a common set of policies and procedures at each of the colleges and universities and includes the following primary responsibilities:

- Apprising students of the availability and the provisions of FISLP loans
- Assisting students in obtaining loans (e.g., helping them to complete the FISLP loan application, ensuring that a GSLP loan denial has been obtained from another lender, sending the completed applications to the USOE processing center)
- Informing students of their rights and obligations under the FISLP
- Disbursing the loan to the student, after receiving authorization from the USOE
- Informing students about the FISLP and responding to their questions
- Maintaining a current file of borrower information, including current address, original loan application, disbursement records, and other documents

- Ensuring that current borrowers are presently enrolled and active as students
- Informing students, through an exit interview, of the loan rights and obligations that continue after a borrower is no longer enrolled as a student
- Transferring a borrower file to the out-of-school category once the borrower is no longer a student.

While the role and the responsibilities are similar in all the schools, there are some differences (outlined below) in the practices that each school actually follows.

All The Schools Have A Focal Point For The Administration Of In-School Loans

All the schools have at least one designated person who is particularly knowledgeable about FISLP loans and who is involved in the personal interviews and other in-school loan administration activities. Most often these activities are accomplished by the financial aid officer of the school or the director of student affairs.

All The Schools Inform Students Of Their Rights And Responsibilities Primarily Through A Restatement Of The USOE Requirements

The U.S. Office of Education has established specific requirements that lenders must meet to ensure that student borrowers are aware of and understand the rights and responsibilities that accompany an FISLP loan. These requirements, the basis of the efforts to inform borrowers at each school, include providing the following information to the borrowers:

- Their personal responsibility to repay the loan
- The beginning date and frequency of loan payments
- The annual rate of interest on the loan and the meaning of the federal subsidy

- A general explanation of the valid reasons for deferring repayment of the loan
- The requirement to notify the lender when an address change occurs.

All of this information is contained in a statement prepared by the USOE that is given to the students as part of the loan application process.

In addition, all the schools use personal interviews between the student and a member of the financial aid staff to provide information on the rights, responsibilities, and obligations associated with the loan. All the students receive an interview concerning their loan. These interviews are usually held after the loan has been approved and just before the student signs the promissory note, not at the time of application.

The Method Of Disbursing Loans To The Students Is Similar

Most of the schools disburse the loans using a check payable jointly to the school and the student, which the student endorses and turns over to the school. The school then credits the student's account and cashes the check. If this results in a net credit to the student's account, a separate check is issued.

Two of the schools send a check to the student for his or her own disposition. One of these schools does this only for its graduate students.

The Method Of Updating Address Information On In-School Borrowers Is Similar At All Schools

All the colleges and universities obtain current addresses at the time of registration and disbursement. The students are told to notify the registrar's office of any change of address. Some of the schools obtain periodic computer printouts from the registrar's office and manually cross-check all borrowers to update their address files. No other actions

are normally taken unless the school has been notified by the student or has received an "address correction" from the post office in response to a mailing to the student. Address changes are less of a problem at schools where a high proportion of the students live in campus housing.

Institutions Of Higher Education Have Specific Guidelines For Exit Interviews, Although The Students Do Not Always Choose To Attend

All the institution of higher education lenders have established procedures that attempt to ensure that all borrowers (graduates or dropouts) receive exit interviews before leaving school. All the schools hold personal interviews with graduating students before graduation. The proportion of students that attend exit interviews is estimated to range from about 70 per cent at one school to 100 per cent at four schools. In most cases, no subsequent action is taken about students who do not attend an exit interview.

Student withdrawal is often not discovered until the end of the semester. College and university lenders attempt to reach the students by telephone and letter, but the rate of success in persuading them to visit the school for exit interviews is very low. None of the schools stated that they had used a particularly time-consuming or effective approach.

In the typical exit interview, a student is given a written explanation of his/her rights and obligations under the loan program, a repayment schedule, and supplementary information. The written material is complemented by an oral presentation by a school staff member who emphasizes the need for repayment, the need to inform the school of address changes, and the person to get in touch with if problems arise. The student is usually asked to sign a form verifying that the exit interview occurred.

Certain Schools Have Unique Loan Administration Activities As A Part
Of Their Agreement With USOE

Certain schools that have had high rates of default or delinquency on their direct FISLP loans are governed in their making of further direct loans by a limitation agreement with the USOE. For example, one school has agreed to:

- Take administrative steps to reduce the delinquency and default rates to a negotiated schedule
- Require any student applying for a direct FISLP loan to apply for a Basic Educational Opportunity Grant before the loan is issued.
- Complete a financial analysis for all students applying for FISLP loans to decide whether they first qualify for awards under other federal programs.

At another school, a limitation agreement includes the development of a monthly (rather than quarterly) billing system by 1981.

REFUND
POLICIES

This subsection discusses the refund policies of the colleges and universities.

Refund Policies Of Institutions Of Higher Education Are Generally Not
Liberal For The Students

Most of the colleges and universities have stringent refund policies for students who withdraw during the school year. The policies do vary among the schools but are generally not liberal from the students' perspective.

The refund policies of the 16 schools visited fall into two main categories:

- A pro rata refund policy, the most liberal approach from the student perspective, allows for a refund in direct proportion to the percentage of course weeks remaining. For example, if a student withdraws after one-third of the course has been completed, only one-third of the tuition is owed to the school (and the remaining two-thirds is refunded). The pro rata system is followed by one school.
- The declining balance policy, which is used by 15 of the 16 schools, involves a sharp decline in the refund amount during the early portion of the program and no refund at all after a midpoint in the semester. A summary of representative approaches used by six of the schools is shown in Exhibit IV-3.

In accordance with USOE regulations, all the schools have a policy of first applying any refunds due a student to the principal balance of that student's loan. The objective of this policy is to reduce the outstanding loan as much as possible. Accordingly, a direct disbursement to a student borrower is made only if his/her loan can be canceled.

The School Refund Policies Do Not Distinguish Between Students With FISLP Loans And Other Students

All students at the institutions of higher education are covered by the same school refund policy, whether or not they have an FISLP loan.

Only Two Of The Institutions Of Higher Education Take Class Attendance

College and university lenders, with two exceptions, do not take attendance in class. Accordingly, if a student decides to drop out and does not notify the school, the absence may go unrecorded until the end of the semester, when grade reports are submitted. Both the schools that take attendance have small enrollments.

INSTITUTIONS OF HIGHER EDUCATION REFUND POLICIES

Percentage Of Total Course Cost Owed By Student

<u>Withdrawal During Week</u>	<u>School</u>					
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
1	10	0	10	0	15	0
2	20	20	20	20	20	25
3	40	40	40	20	40	25
4	70	60	60	20	60	25
5	100	80	80	40	80	25
6		100	100	80	100	50
7				100		50
8						75
9						100
10						
11						
12						

CAREER PLACEMENT ACTIVITIES

This subsection discusses the career placement programs of the colleges and universities.

Colleges And Universities, As A Group, Have Significant Placement Programs For Graduates

Career placement is an integral element of the program at all the colleges and universities. The primary components of these programs typically include general career guidance, coordination of employer contacts, and interviews at the school. A placement staff is designated at all of the schools and includes from one-half FTE position at one school to nine FTE positions at another.

All the schools have some form of career guidance. All undertake coordination of employer contacts and interviews, which includes taking job vacancy information and notifying students who have registered with the placement office. All the schools invite recruiters to establish a major interviewing schedule, an activity that is particularly well-structured for graduate students. Over half the schools feel that they have been especially successful in establishing long-term relationships with potential employers. These lenders cite a number of employers who, at the beginning of a school year, inquire about interviewing.

At the same time, however, the success of the entire placement effort is understood to fluctuate widely by school and student population, depending on the demand of the job market for various types of graduates.

OUT-OF-SCHOOL LOAN ADMINISTRATION

This subsection describes the policies and practices of the colleges and universities in their administration of out-of-school loans. The out-of-school

period begins when a student graduates or withdraws from school and ends when a loan is paid in full or when a claim for payment of the loan is paid by HEW.

All The Schools Have A Focal Point For The Administration Of Out-Of-School Loans

Each school has a designated person with responsibility for the administration of loans to students who are no longer in school.

The Schools Have Differing Approaches To Administering Out-Of-School Loans

One school sells all loans soon after issuance and is not involved in out-of-school administration. The other 15 institutions of higher education use one of two approaches in out-of-school loan administration:

- Individual school administration, used by 13 of the schools, in which the bursar, treasurer, or other designated officer of the school is responsible for all billing, collection, USOE reporting, and claims submission
- Outside servicing, used by two schools, in which the school contracts with an outside company for assistance in loan administration.

The Four Schools With The Highest Default Rates Have Made Significant Changes In Their Staffing Of The Loan Administration Function

The existence of a high default rate by a school typically results in a compliance audit of procedures by the USOE regional office. This review involves an identification of the variations between the USOE procedural requirements for lenders and the procedures actually being undertaken by the school. Many schools that have had high default rates are no longer

authorized as direct lenders. Other schools with high default rates are still in the program but usually with the formal understanding that the default rate will decline over time to an allowable level.

Of the 16 schools visited, four had default rates that were unacceptably high and, they felt, were in the process of being brought down. Two factors were common to all these schools:

- Each of the schools had significantly changed its staffing for the management of the direct lending program. New people, presumably with better qualifications, were now responsible and, in many cases, staffs had been expanded.
- Each of the schools indicated a strong management concern and commitment to ensuring that the default rate is brought down. A number of the schools felt that this management concern had been lacking in previous years.

The Procedures For Maintaining Current Addresses Of Out-Of-School Borrowers Are Similar

All the schools felt that keeping track of students, especially students who do not want to be located, is very difficult. The techniques used by the schools to obtain updated addresses are basically similar:

- At the exit interview, all the students are asked to provide their current and/or forwarding addresses (as noted, however, some students do not attend the exit interview).
- Standard tracking practices, such as searching telephone books and local directories, inquiring of relatives and known recent employers, and requesting address corrections from the post office, are widely used.

These basic techniques are supplemented by some of the lenders:

- A few schools send a letter 30 days before the first payment is due.
- One school has a staff person in the business office make personal contact with each borrower before graduation and ask him or her to call collect with any questions or information. This contact is followed by a phone call to the borrower approximately halfway through the deferral period.

The two schools that use outside servicers for all of their loans assume that the servicers are responsible for maintaining current addresses. When the servicer asks the school for help in locating a student, the administrative staff gets the last known address from the registrar or the placement office.

Some Of The Institutions Of Higher Education Use Collection Agencies Or Lawyers To Assist In The Collection Process

Some colleges and universities use collection agencies or lawyers to assist in the collection of delinquent FISLP loans. Collection agencies are used as follows:

- Two schools use collection agencies for all accounts that are 120 days past due and feel that this practice has been very beneficial.
- One school has used collection agencies with a 25 per cent success rate but has not used them "recently" because of its own improved staff capabilities.
- One school had used a collection agency but was not pleased with the results and has since put greater emphasis on litigation.

- The other schools rarely use collection agents for FISLP loans, although many use them for their loans under the National Defense Student Loan program. In general, the schools feel that their in-house collection staffs are sufficiently capable.

The use of outside lawyers is limited:

- One institution of higher education uses an attorney to collect FISLP loan obligations and, apparently, has been very successful in its approach. The attorney is on a full-time retainer to pursue and prosecute student loan defaulters. If a series of letters does not bring results, the school sues the borrower. Since 1976, according to the school, over 3,000 suits have been filed, and over 80 per cent of the outstanding loan balances have been collected.
- One school uses an outside attorney to send letters to borrowers who are 90 or more days delinquent. The effort has had limited success.
- One school uses outside counsel to litigate a small number of loans when all other collection efforts fail. The criteria for selecting these loans are not fixed.

In general, schools are reluctant to bring legal action against persons who are present or potential alumni.

Institutions Of Higher Education Generally Follow USOE Requirements And Submit Claims When FISLP Loans Are 120 Days Past Due And In Default

Colleges and universities generally submit an FISLP account for claims payment when it is 120 days past due and in default. The principal reason

for attention to the 120-day criterion is the strong emphasis by the USOE on timely submission of claims. Two situations pertaining to the submission of accounts in default were noted:

- Most schools review each account on the 120th day of delinquency or soon after and submit it for payment unless unusually strong and compelling circumstances exist. If, for example, a borrower has promised payment within two weeks, the submission of a claim would be deferred.
- At least three schools will hold an account past 120 days if "working" the account - either internally or through a collection agent or lawyers - has the potential for repayment. The primary reasons for this appear to be a belief that they will be able to collect from the student and some reluctance to blemish their low claims record.

SERVICING, WAREHOUSING, AND SALE OF LOANS

This subsection discusses the servicing, warehousing, and sale of loans by the colleges and universities.

Only Two Of The Schools Use Outside Servicing Companies To Administer Their FISLP Loans

Two of the schools use outside servicers to administer both their in-school and their out-of-school FISLP loan portfolios.

The other schools do not use outside servicing companies for their FISLP loans. The reasons for this decision, outlined below, vary. A common theme is that the decision not to use outside servicing is based on cost calculations and the desire to retain management control of the administrative process:

- Some of the schools have very large portfolios that include the FISLP loans of several thousand students. These lenders have established their own sophisticated and extensive administrative systems under their own direct and immediate control.
- Two schools had used outside servicing, were dissatisfied with its performance, and switched to an in-house basis.
- The other schools have small loan portfolios that, in the view of their administrations, do not warrant outside help.

Only Two Schools Are Currently Involved In The Warehousing Of Loans

Warehousing is being used by only two of the institutions of higher education, one of which has a large portfolio and the other a small one. Both use the Student Loan Marketing Association (SLMA) for warehousing, and one also uses a local bank. Both warehouse a portion of their total FISLP portfolios.

The other lenders do not warehouse loans because of the small size of their loan portfolios, alternative financing opportunities presented by their corporate structure, the availability of sufficient internal cash flow, or the decision to sell loans instead.

Six Institutions Of Higher Education Are Involved In The Sale Of Loans

One school sells all of its loans to a regional authority within about 30 days of disbursement. Five of the college and university lenders have sold student loan portfolios containing FISLP loans to SLMA. The types of loans sold to SLMA vary somewhat:

- Two schools try to sell all of their in-school loans annually.
- Two schools sell only the loans of students who have graduated during the year; one sells only some of the loans of this group, and the other tries to sell them all.

- One school sells whenever it is able to assemble a large enough package of loans, which has usually taken several years.

In all of these cases, SLMA contracts with outside servicing companies to handle the collections and related processing. No other financial institutions have been involved in sales with these schools.

The other ten schools do not sell loans because they feel that their portfolios are too small to be attractive or because internal analyses (ranging from rudimentary to detailed) that they have performed indicate that sale would not be advantageous. In many cases, as noted, schools use their ample endowment funds to finance their FISLP loans; under this arrangement, interest earned on the FISLP loans is credited to the endowment accounts.

D - SUMMARY OF OBSERVATIONS

This section presents a summary of observations, based on the findings on the proprietary schools and the institutions of higher education in the preceding sections.

1. Schools Become Involved As Direct Lenders Primarily Because Of A Lack Of GSLP Funding From Other Sources For Their Students

All of the proprietary schools and the institutions of higher education stated that their involvement as direct lenders was necessary because of the lack of GSLP funding for their students from other sources (such as banks and other financial institutions). This factor was in all cases the major reason, and in most cases the only reason, for their involvement as direct lenders. The implication of this is that unless alternative sources for direct FISLP loans can be found (e.g., through more intensive state agency programs or regional "loan banks of last resort"), the demand by the schools for direct lending status will continue.

2. Because Of The Existence Of A Comprehensive Set Of USOE Guidelines For Program Administration, The Policies And Procedures Actually Used By The Schools Are Quite Similar

The USOE has already established a comprehensive set of policies and procedures to guide the administration by the schools of the FISLP. The schools are then driven in the establishment of their internal program practices to adhere to the USOE framework. As a result the administrative policies of the schools in the areas of loan approval, in-school loan administration, refunds, and out-of-school loan administration have important similarities among schools and are otherwise consistent with the USOE guidelines.

Exceeding the USOE requirements is exceptional rather than typical. For example, in the area of loan approval methods, the USOE requirements are exceeded by a few schools. Two schools supplement the USOE requirements by making a financial credit check of the applicant, three schools limit the loan amount or availability according to the academic year of the student, and one other denies loan availability on the basis of the student's attitude. In the area of out-of-school loan administration, a few schools will make more attempts at contacting borrowers in default than are in fact required by the USOE.

3. However, The Effectiveness With Which The Schools Implement These Policies And Practices Varies

The USOE rules and regulations do form the core of the methods used by the schools to administer the loan program. The effectiveness of a school in this area, however, is strongly dependent on its ability to provide proper staffing and sufficient management attention to it.

The ability of the staffs to provide an intensive and quality-oriented adherence to the USOE guidelines appears to be an important factor in explaining differences in performance among schools. For example, two similar schools had extensive similarities in their institutional framework, ranging from similar student profiles to the similar costs of attending the schools. Despite this, however, there was a fivefold difference in their default rates because of differences in their management of the program.

Similarly, the four institutions of higher education with the highest default rates all have recently made staffing changes for the administration of the loan program. Each of the schools feels that its present staff is better qualified than before to manage the program. In some cases the number of persons involved in administering the program has expanded; in others, the staff has been changed and has undergone training in the billing

and collection function. Each also has indicated a strong concern for managing the program that, in some cases, did not exist in previous years.

4. Taking Legal Action Against Students Is Effective At One School
But Is Not Well Received By Other Schools

One institution of higher education has been particularly effective in reducing its default and delinquency rates by taking legal action against all students who are in default. While this approach is viewed by that school as having been very effective, other schools (particularly other institutions of higher education) are reluctant to follow it. The reason for this reluctance is primarily a dislike for suing alumni or for acquiring a reputation as a law enforcement (as opposed to educational) entity. Some of this reluctance also appears to be based on a lack of understanding of the nature and form of collection litigation.

5. The Selling Of Loans To Financial Institutions Is Primarily Performed
By Schools With Large Portfolios

Six of the institutions of higher education and two of the proprietary lenders have sold loans to either the Student Loan Marketing Association or banking institutions. While they constitute only about one-third of the lenders included in this review, they are primarily those with large loan portfolios. In turn, it is the existence of a large loan portfolio that makes purchase attractive to outside organizations.

V - RELATIONSHIP BETWEEN THE CHARACTERISTICS OF
PAST BORROWERS AND THE REPAYMENT STATUS
OF THEIR DIRECT FISLP LOANS

- Objectives And Approach
- Findings Based On Statistical Correlations

V - RELATIONSHIP BETWEEN THE CHARACTERISTICS OF PAST BORROWERS AND THE REPAYMENT STATUS OF THEIR DIRECT FISLP LOANS

This chapter discusses the relationship between certain characteristics of borrowers and the repayment status* of their FISLP loans. The chapter includes sections on objectives and approach and findings based on statistical correlations.

A - OBJECTIVES AND APPROACH

An objective of this study was to look for statistical relationships between student borrower characteristics and the repayment status of their loans. Eight borrower characteristics were used:

- Six variables collected on the loan application forms (age, marital status, sex, race, adjusted gross income, and financial dependency of parents at the time of applying for the first loan)
- The cumulative amount of direct FISLP loans received from the school

*Repayment status is defined as the borrower's being either in the process of repayment or in default on the loan. All the borrowers included in this discussion had entered the repayment period and therefore were not in an in-school, grace, or deferment status.

- Whether the student graduated or withdrew from the school. These variables were selected by the USOE for inclusion in this review and analysis because of their easy availability from the borrowers' loan application forms.*

The data used to relate student characteristics to repayment status were obtained through a survey of past borrowers of direct FISLP loans. Student loan records at five proprietary schools and four institutions of higher education (listed in Exhibit V-1) were accessed on a random basis; at each of the schools about 30 borrowers who were repaying their loans and about 30 who were in default were randomly selected to constitute the data set of 510 students.** The nine schools were selected by the study team to provide a mix of different types of schools. Using the data for each student on the eight characteristics and the repayment status, a simple correlation analysis was then undertaken. Then, on the basis of these simple correlations, a multiple regression of these variables was performed for each of the schools individually and for all of the schools as a group.

*The variables included in this analysis did not include variables describing the administrative policies and practices of the schools. The primary reason for excluding administrative variables was that the administrative approaches of the schools have changed over time and would now be most difficult to reconstruct, quantify, and relate in a meaningful way to the repayment status of the loans.

**The goal of selecting 60 data points from each school was based on a direct method of calculating the adequacy of any sample for multiple regression, as given in Cohen and Cohen (reference below). For an 80 per cent likelihood that the regression will be considered significant at the 5 per cent level of significance (assuming that, in fact, R^2 is at best .25 and that the number of independent variables equals 10), it follows that the calculated minimum required sample size equals 59.76, or 60. Reference: Jacob Cohen and Patricia Cohen, Applied Multiple Regression/Correlation Analysis for the Behavioral Sciences, Lorraine Erlbaum Associates, 1975, p. 117.

PROPRIETARY SCHOOLS AND
INSTITUTIONS OF HIGHER EDUCATION
INCLUDED IN THE SURVEY OF PAST BORROWERS

<u>School</u>	<u>Location</u>
Baptist College of Charleston	Charleston, South Carolina
Harvard University	Cambridge, Massachusetts
University of Denver	Denver, Colorado
University of New Mexico	Albuquerque, New Mexico
Bailey Technical School	St. Louis, Missouri
DeVry Institute of Technology	Atlanta, Georgia
DeVry Institute of Technology	Phoenix, Arizona
San Diego College of Medical/Dental Assistants	San Diego, California
Youngstown College of Business	Youngstown, Ohio

The simple correlations may be used to identify gross statistical relationships that exist between the borrower characteristics and repayment status. These relationships are not necessarily causal, and repayment status is influenced by other variables (including institutional characteristics) that are difficult to collect or otherwise measure.

The statistical analyses performed in Chapter V represent the first step in a series of statistical tests that need to be undertaken on these data. In particular, until the complete sequence of regression analyses is performed, definitive conclusions cannot be drawn concerning the relationship between default rates and individual borrower characteristics. Because that complete analysis is beyond the scope of this contract, Chapter V includes only the results of the correlation analysis; in addition, we have provided the best regression models in Appendix C. It is our understanding that the U.S. Office of Education plans to complete the regression analysis that we have begun and to issue a separate technical paper on this subject.

B - FINDINGS BASED ON STATISTICAL CORRELATIONS

This section discusses the findings from statistical correlations of various characteristics of student borrowers with the present repayment status of their FISLP loans.

OVERVIEW

Statistical correlations were determined between the present repayment status of FISLP loans and the following characteristics of the student borrowers:

- Graduation/withdrawal status
- Age*
- Marital status*
- Sex
- Race
- Cumulative amount of FISLP loans from that school
- Independent/dependent financial status*
- Adjusted gross income*
- Various interaction variables representing combinations of the eight variables above.

Since the data were gathered from nine schools, the discussion and analysis are limited to statements about those nine schools and do not necessarily indicate what the findings would be at other schools.

Throughout this section, the repayment status of the student borrowers was coded in such a way that a negative correlation with any other variable reflects a tendency for that other variable to be associated with

*Status at the time the first loan was obtained.

default. Conversely, a positive correlation coefficient reflects a tendency for that variable to be associated with repayment. A perfect association would have a correlation coefficient of either +1 or -1, while a coefficient of 0 implies no association whatever.

INDIVIDUAL CORRELATIONS

The following subsections provide a definition of the student borrower characteristics and a statement of their correlation with repayment status. The contents of this section reflect simple statistical relationships and do not imply causality.

Graduation Status Of The Student

The graduation status was defined for each student as having graduated or having withdrawn from school. This variable was then correlated with the student's current repayment status.

A major and significant correlation was found for students at the nine schools:

- There was a significant positive correlation between having graduated from school and currently being in repayment of their direct FISLP loans. The correlation coefficient was .23 for the overall group of students at the nine schools and was statistically significant at four of the five proprietary schools and three of the four institutions of higher education.
- There was an equally significant correlation between having withdrawn from the schools and being currently in default on their FISLP loans.

A table summarizing the correlations with being currently in repayment is presented below:

	<u>Correlation Coefficient (r)</u>	
	<u>Graduated</u>	<u>Withdrew</u>
Nine schools	.23	-.23
Five proprietary schools	.21	-.21
Four institutions of higher education	.20	-.20
Proprietary school A	.33	-.33
Proprietary school B	*	*
Proprietary school C	.37	-.37
Proprietary school D	.31	-.31
Proprietary school E	.31	-.31
Higher education school A	.50	-.50
Higher education school B	.42	-.42
Higher education school C	*	*
Higher education school D	.21	-.21

*Not statistically significant (i.e., there is at least a 15 per cent probability that the correlation coefficient has a value of zero).

Graduation status was itself significantly correlated with a number of other variables.**

Age Of The Student

The age of each student at the time of application for his or her first FISLP loan was defined. This variable was then correlated with current repayment status.

**Having graduated from the program was significantly and positively correlated with having a high cumulative loan amount ($r = .13$), being a white student ($r = .10$), being a female student ($r = .08$), and being at least 23 years old at the time of the first loan ($r = .07$). Having withdrawn from the program was significantly and positively correlated with being a black student ($r = .15$), having a low cumulative loan amount ($r = .13$), being a male student ($r = .08$), and being less than 23 years old at the time of the first loan ($r = .07$).

No significant correlation between age and current repayment status was found for students at the nine schools. There was an absence of statistical significance both when age was used as a continuous variable and when a dichotomous variable for age (e.g., describing age as either at least 23 years or less than 23 years for each student) was established.

Marital Status Of The Student

The marital status of each student at the time of application for a first FISLP loan was defined as single, married, or other (divorced, separated, widowed). This variable was then correlated with current repayment status.

No significant correlation was found between being single or being married (at the time of the first loan) and current repayment status for the group of students at the nine schools. However, there was a minor significant correlation between having a marital status of "other" and being currently in default on an FISLP loan. The correlation coefficient was $-.10$ at the group of nine schools and was statistically significant at two of the five proprietary schools and two of the four institutions of higher education (at one of the other institutions of higher education, there is a reversal, and other marital status is significantly correlated with being in repayment).

A table summarizing the correlations with being currently in repayment is presented below:

	Correlation Coefficient (r) <u>Other Marital Status</u>
Nine schools	-.10
Five proprietary schools.	-.19
Four institutions of higher education	*
Proprietary school A	-.32
Proprietary school B	*
Proprietary school C	-.19
Proprietary school D	*
Proprietary school E	*
Higher education school A	-.19
Higher education school B	*
Higher education school C	-.19
Higher education school D	.25

*Not statistically significant.

A marital status of "other" was itself correlated with six other variables.**

Sex Of The Student

The sex of the students was correlated with their current repayment status. No significant correlation was found for the group of students at the nine schools.

**Other marital status was significantly and positively correlated with age at the time of the first loan ($r = .40$), being at least 23 years old ($r = .33$), being a female student ($r = .22$), having an adjusted gross income of less than \$3,000 at the time of the first loan ($r = .14$), having a cumulative loan amount of less than \$1,500 ($r = .12$), and being a white ($r = .08$) or "other" student ($r = .07$).

Race Of The Student

The race of each student (white/Caucasian, black/Negro, or other) was defined and then correlated with the student's current repayment status.*

A major and significant correlation was found for the group of students at the nine schools:

- Being a white student was significantly correlated with being currently in repayment of the FISLP loans. The correlation was .22 for the group of nine schools and was statistically significant at three of the proprietary schools and three of the institutions of higher education.
- Being a black student was significantly correlated with being currently in default on the FISLP loans. The correlation was .32 for the group of nine schools and was statistically significant at all the proprietary schools and institutions of higher education.
- Being defined as an "other" student was significantly correlated with being currently in repayment of the FISLP loans. The correlation was .09 for the group of nine schools but was statistically significant at only two proprietary schools and at none of the institutions of higher education.

*The inclusion of race is intended to identify whether this variable (as a surrogate for other factors) is related to repayment status and, if so, whether or not it should be considered in allowing schools with high default rates to remain in the program.

A table summarizing the correlations with being currently in repayment is presented below:

	Correlation Coefficient (r)		
	<u>White</u>	<u>Black</u>	<u>Other</u>
Nine schools	.22	-.32	.09
Five proprietary schools	.18	-.29	.13
Four institutions of higher education	.25	-.35	*
Proprietary school A	*	-.28	.36
Proprietary school B	*	-.23	.23
Proprietary school C	.47	-.47	*
Proprietary school D	.28	-.29	*
Proprietary school E	.25	-.30	*
Higher education school A	.32	-.36	*
Higher education school B	*	-.36	*
Higher education school C	.32	-.36	*
Higher education school D	.23	-.37	*

*Not statistically significant.

The race of the student was itself correlated with a number of other variables.**

**Being a white student correlated significantly and positively with having an adjusted gross income of at least \$11,000 ($r = .15$), having graduated from the school ($r = .10$), being dependent on parents for financial support ($r = .09$), and having an "other" marital status ($r = .08$). Being an "other" student correlated positively and significantly with age at time of first loan ($r = .17$), being more than 23 years old ($r = .13$), being married ($r = .10$), having graduated from the program ($r = .08$), and having a marital status of "other" ($r = .07$). Being a black student correlated positively and significantly with having withdrawn from the program ($r = .15$) and having an adjusted gross income of less than \$3,000 ($r = .10$).

Cumulative Amount Of FISLP Loans

The cumulative dollar amount of FISLP loans from the school was defined for each student and then correlated with current repayment status.

No significant correlation was found between cumulative loan amount and repayment status for the group of students at the nine schools. There was an absence of significance both when cumulative amount was used as a continuous variable and when a dichotomous variable for amount (e.g., describing amount as either at least \$1,600 or less than \$1,600 for each student) was established.

Dependency Status Of The Student

The financial dependency of each student as reported by that student at the time of the first loan application was identified as either independent of or dependent on his or her parents and correlated with current repayment status. A significant correlation was found:

- A minor significant correlation was found between being an independent student and being in default. The correlation coefficient was .11 for the group of students at the nine schools but was statistically significant at only one of them.
- There was an equally significant correlation between dependent status and being currently in repayment of the loans.

A table summarizing the correlation with being currently in repayment is presented below:

	Correlation Coefficient (r)	
	<u>Independent</u>	<u>Dependent</u>
Nine schools	-.11	.11
Five proprietary schools	-.15	.15
Four institutions of higher education	*	*
Proprietary school A	*	*
Proprietary school B	-.33	.33
Proprietary school C	*	*
Proprietary school D	*	*
Proprietary school E	*	*
Higher education school A	*	*
Higher education school B	*	*
Higher education school C	*	*
Higher education school D	*	*

*Not statistically significant.

Dependency status was itself correlated with a number of other variables.**

Adjusted Gross Income Of The Student

The adjusted gross income, as reported by each student at the time of the first loan application, was identified and then correlated with the current repayment status.

**Financial dependence on parents at the time of the first FISLP loan was significantly and positively correlated with being less than 23 years old ($r = .63$), being single ($r = .60$), having a high adjusted gross income ($r = .43$), having a high cumulative loan amount ($r = .11$), and being a white student ($r = .10$). Financial independence was significantly and positively correlated with being at least 23 years old ($r = .63$), having a married ($r = .46$) or other ($r = .25$) marital status, having a low adjusted gross income ($r = .43$), and having a low cumulative loan amount ($r = .11$).

A significant positive, though minor, correlation ($r = .08$) was found between the income of the students and their being in repayment. That is, the higher the income, the more likely the student was to be in repayment.

A similar correlation was found when adjusted gross income was expressed as high (at least \$11,000), medium (\$3,000 to \$10,999), or low (less than \$3,000):

- A significant positive correlation ($r = .07$) was found between having a high income (of at least \$11,000) and being currently in repayment of the loan.
- A significant positive correlation ($r = .10$) was found between having a low income (less than \$3,000) and being currently in default on the loan.

A table summarizing the correlations with being currently in repayment is presented below:

	Income Level	Correlation Coefficient (r)		
		At Least \$11,000 Of Income	\$3,000 To \$10,999 Of Income	Less Than \$3,000 Of Income
Nine schools	.08	.07	*	-.10
Five proprietary schools	.12	.13	*	-.12
Four institutions of higher education	*	*	.11	*
Proprietary school A	*	*	.23	*
Proprietary school B	*	*	*	*
Proprietary school C	.30	.25	*	-.42
Proprietary school D	*	.25	-.27	*
Proprietary school E	*	*	*	*
Higher education school A	*	*	*	*
Higher education school B	.23	*	*	-.26
Higher education school C	*	*	.21	*
Higher education school D	*	*	*	*

*Not statistically significant.

Income level is itself correlated with several other variables.*

The dependency status and adjusted gross income, as reported by each student at the time of first loan application, were then linked to form a new variable, defined as:

- Independent with high income (at least \$6,000)
- Independent with middle income (at least \$3,000 but less than \$6,000)
- Independent with low income (less than \$3,000)
- Dependent with high income (at least \$15,000)
- Dependent with middle income (at least \$7,000 but less than \$15,000)
- Dependent with low income (less than \$7,000).

This variable was then correlated with the current repayment status of the FISLP loan.

A significant correlation was found for the overall group of students at the nine schools:

- Being a low-income, independent student had a significant correlation with being in default. The correlation coefficient was .12 for the students at the group of nine schools.
- Being a middle-income, dependent student had a significant correlation with being in repayment. The correlation coefficient was .07 for the students at the group of nine schools.

*A higher income level is significantly and positively correlated with being dependent on parents ($r = .43$), being less than 23 years old ($r = .22$), being single ($r = .18$), being a white student ($r = .13$), being a male student ($r = .08$), and having a higher cumulative loan amount ($r = .07$). A lower income level is significantly and positively correlated with being independent of parents ($r = .43$), being at least 23 years old ($r = .22$), having an "other" marital status ($r = .15$), being a black student ($r = .10$), being a female student ($r = .08$), and having a lower cumulative loan amount ($r = .07$).

There was no statistically significant correlation between being a high-income independent student, a high-income dependent student, a middle-income independent student, or a low-income dependent student and the repayment status of the FISLP loan.

Interaction Variables

The previous eight variables were combined to create interaction variables for each of the students. These interaction variables were then correlated with the current repayment status.

For the group of students at the nine schools, the following significant correlations were found:

- Having withdrawn from the school and being a black student ($r = .26$), having income below \$3,000 and being a black student ($r = .21$), and having cumulative loans of at least \$1,600 and being a black student ($r = .19$) were all significantly correlated with being currently in default on the loan.
- Having graduated from the school and being a white student ($r = .28$) and having an income of at least \$11,000 and being a white student ($r = .20$) were both significantly correlated with being in repayment on the loan.

SUMMARY

The correlations of the student variables with repayment status are summarized below:

<u>Variable</u>	<u>Extent Of Significant Correlation</u>
Graduation status	Major, with $r = .23$ for graduates and $r = -.23$ for withdrawals
Age	None
Marital status	Minor, with $r = -.10$ for "other" status
Sex	None
Race	Major, with $r = .22$ for white students, $r = .09$ for "other" students, and $r = -.32$ for black students
Cumulative loan amount	None
Dependency status	Minor, with $r = .11$ for dependent students and $r = -.11$ for independent students
Adjusted gross income	Minor, with $r = .08$ for income level, $r = .07$ for income of at least \$11,000, and $r = -.10$ for income of less than \$3,000
Interaction variables	Major, with $r = -.26$ for students who were black and did not graduate, $r = -.21$ for students who were black and had low income, $r = -.19$ for students who were black and had large cumulative loan amounts, $r = .28$ for students who were white and did graduate, and $r = .20$ for students who were white and had high income

OTHER ANALYSES

As a first step toward further analyses, the data were tested under a stepwise multiple regression. The variables above were used as the independent variables (with repayment status as the dependent variable) in a stepwise multiple regression model. The results of these first analyses, as discussed in Appendix C, yielded a model for the group of nine schools with an $R^2 = .14$ and models for the individual schools with R^2 values of from .27 to .59.

VI - SUMMARY OF OBSERVATIONS AND IMPLICATIONS

- Summary Of Observations
- Implications

VI - SUMMARY OF OBSERVATIONS AND IMPLICATIONS

This chapter summarizes the observations presented in the earlier chapters and presents the implications for direct school lending under the FISLP.

A - SUMMARY OF OBSERVATIONS

The observations presented earlier are summarized below.

In the area of the attitudes and characteristics of the current borrowers of direct FISLP loans, it was found that:

- The predominant factor in the students' enrollment decision is either the prospect of obtaining related employment or the school's reputation in their area of interest.
- About 40 per cent of the students felt that the availability of direct FISLP loans was important in their decision to enroll at their school.
- About 70 per cent of the students felt that the amount of their loan is appropriate for their needs.
- Most students said that they did not receive external pressure to enroll from either school officials or parents.
- About 50 per cent of the students felt that they had been well informed before enrollment about the cost of completing the program and the content and difficulty of the courses.
- Many students, particularly at institutions of higher education, said that they did not first have to obtain a required loan rejection from a bank in order to obtain their loan from the school.

- Virtually all students understand that they are personally responsible for repaying their loans.
- Many students, primarily at proprietary schools, are unfamiliar with the terms and conditions of their loans.
- Many students, particularly at proprietary schools, are not aware of the need to notify the school if they change their address after they leave school.
- About 70 per cent of the students have received satisfactory answers from the schools to questions about their loans.
- About 70 per cent of the students are satisfied with the training they are receiving.

In the area of the relationship between the characteristics of past student borrowers and their present repayment status, it was found that:

- The student characteristics of graduation status, race, marital status, adjusted gross income, and dependency status at the time of the first loan show a minor significant correlation with whether the students are in repayment or default.
- The student characteristics of age, sex, and cumulative loan amount show no significant correlation with whether the students are in repayment or default.

In the area of the administrative policies and practices of the schools, it was found that:

- Schools become involved as direct lenders primarily because of a lack of GSLP funding for their students from other sources such as commercial banks.
- Because of the existence of comprehensive USOE guidelines for program administration, the policies and procedures actually used by the schools are quite similar.

- The effectiveness with which the schools implement their policies and practices varies, usually as a function of the capabilities of the school personnel assigned to loan administration.
- Taking legal action against students who have defaulted is effective at one school; however, it is not favored as an approach by other schools because of the potential for adverse reaction from alumni.
- The selling of loans to financial institutions is primarily performed by those schools with large numbers of loans in their portfolios; conversely, the sale of small portfolios is not viewed as being financially attractive.

B - IMPLICATIONS

This section summarizes the implications for direct school lending under the FISLP.

PROGRAM PURPOSE AND DIRECTION

Direct School Lending Is Important As A Source Of Financial Aid To Students And Should Be Continued

Direct school lending under the FISLP presently serves as an important and necessary source of GSLP loans to students. Operating as a lender of last resort program, direct school lending allows schools to provide loans to their students even though local banks and other financial institutions hesitate to make the loans. Since the availability of GSLP loans from nonschool sources varies widely by state and region (and, in many areas, is virtually nonexistent), the program fills what would otherwise be a gap in the making of student loans.

The present importance to the students of direct school lending was underscored in the survey of current student borrowers. As discussed in Chapter III, 22 per cent of the proprietary school students and 29 per cent of the higher education students who had direct school loans said that they definitely would not have enrolled if they had not received the loans. Another 35 per cent of the proprietary school students and 21 per cent of the higher education students said that they probably would not have enrolled without the loans.

There has been a recent and ongoing expansion of the state agency program, with a corresponding decrease in the number of schools that have had to continue as direct school lenders. Further, other states (such as Texas, South Dakota, and New Mexico) are now in transition to increased state agency involvement, which has led to a phasing out of direct lenders in those

states. For a variety of reasons, however, a number of states are considered unlikely to be either able or willing to provide loan access to students. Alternative arrangements (such as a national loan bank or regional loan center) have been discussed and may, upon close scrutiny, be more effective and efficient means of providing loan access to the students. Until these alternatives have been suitably analyzed and implemented, however, direct school lending under the FISLP will continue to be needed to meet the problem of student access to GSLP loans.

Direct School Lending Is Expected To Continue At A Relatively Low Level Of New Disbursements Within The GSLP

As discussed earlier, the GSLP has shifted in recent years from a strong federal-based program to a strong state-based system with less federal orientation. For fiscal 1980, new disbursements under the FISLP (which includes direct school and other lenders) are projected at \$244 million, or about one-third of the level achieved four years earlier. At the same time, the federal-based FISLP now constitutes only about 9 per cent of all new GSLP disbursements, the other 91 per cent occurring under the Guarantee Agency Program.

For the foreseeable future, the role and proportion of direct school lending are not likely to increase. With the increasing importance of the state agency programs, schools involved as direct lenders will continue to leave the federal program in favor of the Guarantee Agency Program. However, while the number of direct lender schools is likely to decrease, the loan volume of the remaining schools is likely to increase, primarily because of the Middle Income Assistance Act of 1978.

The Large Volume Of Outstanding Loans Requires That Continued Emphasis Be Placed On The Collection Effort

Although the volume of new disbursements has declined, the volume of loans still outstanding (estimated at \$1.9 billion for the entire FISLP) is

substantial. Accordingly, even though disbursements are down, emphasis on the effective collection of loans will continue to be needed in the FISLP for the foreseeable future.

PROGRAM POLICY
AND MANAGEMENT

The USOE Appears To Have Been Effective In Eliminating Most Of
The "Problem Schools" From Further Involvement As Direct
Lenders In The FISLP

The enforcement of delinquency rate and default rate standards by the USOE has led to elimination from the direct lending program of schools that have had high rates of default. Three findings of this study are of particular note:

- All of the schools still in the direct lending program either have default rates below 15 per cent or are using special administrative policies under some form of limitation agreement with the USOE.
- The recruitment practices of the schools still in the program appear to be generally acceptable. Specifically, the current in-school borrowers, as a group, did not feel that they had been pressured by school officials to enroll in the school. Only 1 per cent of the proprietary school students and 3 per cent of the higher education students felt that they had been pressured, and 14 per cent and 3 per cent, respectively, felt that they had been "somewhat pressured" to enroll.
- The current in-school borrowers, as a group, were satisfied with the training that they were receiving. Only 1 per cent of the proprietary school students and 6 per cent of the higher education students were not satisfied, and 38 per cent and 16 per cent, respectively, were "somewhat satisfied."

The direct lender program has been effective in eliminating schools with high default rates from its program. It is unclear, however, if sufficient steps have been taken to ensure that similar compliance standards apply to state agency programs.

There Is A Limit To The Extent To Which Rules And Regulations
Can Be Effective In Reducing The Default Rate Of The Program

The USOE already has a comprehensive set of rules and regulations to guide the administration of the direct lending program. These rules and regulations appear to have been effectively defined and, together, form the framework for a meaningful approach to program administration. Further, other than the use of litigation (as discussed below), there are few policy differences among the schools that appear to influence their default rates. Certain aspects of this program, however, are not realistically controllable through rules and regulations:

- For whatever reason, it was found that students with certain personal characteristics (i.e., income, race) were more likely to be in default than in repayment.
- However, the purpose of the loan program is to make education accessible regardless of the risk differences associated with certain groups of students. Thus, given the intent of the program, loans cannot be denied to those "higher risk" students.
- There are significant differences in the staff capabilities at the schools, which are directly related to the performance of the loan portfolios. Again, there are limits to the USOE's influence over schools' internal operations, particularly regarding the number and qualifications of their loan administration staffs.

A related finding is that many of the proprietary lenders appear to have better staff capabilities than many of the institutions of higher education.

In any case, the institutional default rate is not related to whether the school is a proprietary school or an institution of higher education.

There Are Some Actions That Should Be Either Instituted Or Reinforced
In An Effort To Minimize Default In The Program

The operation of the program and the control of defaults could be strengthened by taking certain actions:

1. An improved "early warning system" should be used by the USOE to monitor school performance. In the past, actions by the USOE (ranging from program reviews to limitation agreements) have taken place at a time substantially after the indication that a problem existed. As a result and in the interests of taking more timely remedial action, the schools with a history of above average default should be closely monitored. In particular, performance should be reviewed quarterly or semiannually, with an emphasis on the period-to-period changes that are taking place. Negative changes should be subject to a timely reaction to identify the nature of the problem (e.g., staffing problem, misunderstanding of USOE procedures) and the opportunities to resolve it.

2. The initiation of credit bureau referrals and legal action should be given greater emphasis. The positive experience of one university in taking legal action against all borrowers in default is worth considering on a broad basis by other schools or, on their behalf, by independent third parties. Aside from the results that have been obtained in this area, the attendant publicity appears to have an important "ripple effect" on persuading other students to repay their loans. The reporting to credit bureaus of persons with defaulted loans should also be given strong consideration.

3. Certain administrative methods should be focused on students who do not graduate from the school, recognizing that they are more likely to default. As noted, there is a strong positive correlation between students who do not graduate from the school and students who are in default on

their loans. Therefore, particular attention should be focused on steps that will minimize the likelihood that they do not understand their responsibilities or will not be locatable:

- Continued emphasis on ensuring that loan applicants understand that they are personally responsible for repaying the loan whether or not they graduate from the program and whether or not they feel that the educational program was worthwhile.
- Continued emphasis on the maintenance of accurate address information on the students, particularly while they are attending the school.
- Continued emphasis on identifying and quickly establishing an initial contact with them.

4. Steps should be taken to improve the knowledge of student borrowers concerning their FISLP loans. Despite the extensive borrower information requirements already associated with the FISLP, student borrowers are not as knowledgeable about their loans as would be desirable. As discussed in Chapter III, virtually all borrowers understand that they are personally responsible for repaying their loans. Aside from this, however, their knowledge was found to be inadequate in several areas:

- When the repayment cycle begins. About 45 per cent of the proprietary school students and 20 per cent of the higher education students did not know when (i.e., how soon after graduation) the repayment cycle for their FISLP loans begins.
- Size of the monthly payment. About 69 per cent of the proprietary school students and 39 per cent of the higher education students had not been informed of the size of the monthly payments they will need to make on their FISLP loans.

- Valid reasons for deferring repayment of the loan. About 61 per cent of the proprietary school students did not know that graduating and going on to another school is a valid reason for deferring payments on the FISLP loan.
- The need to notify the school of an address change. About 60 per cent of the proprietary school students and 29 per cent of the higher education students were not aware of the need to notify the school of a change of address after they leave the school.
- The ability to obtain satisfactory responses to questions concerning their loans. About 32 to 33 per cent of the proprietary school and higher education students received "unsatisfactory" or "somewhat unsatisfactory" responses to questions concerning their loans.
- Knowledge before enrollment of the cost of completing the program. About 43 to 46 per cent of the proprietary school and higher education students felt that they were either "somewhat well informed" or "not well informed" before enrollment about the cost of completing the program.

The inadequacy of student awareness in these areas can be expected to lead to misunderstanding as they enter the repayment period.

5. The requirement that students first obtain a loan rejection should be reevaluated. The present requirement is in many cases not being followed by the schools, as noted in the in-school borrower survey. The necessity of this rule is questionable. First, it is easy to obtain the required rejections (and thereby qualify for a direct school loan) since many banks do not make direct loans. Second, the need to obtain a loan rejection is time consuming and often embarrassing to many students. An alternative

✓

approach could be for the school to be designated as a direct lender (on the basis of local lending conditions) and then to make loans without the rejection requirements.

6. Termination or severe limitation of lending authority should continue to be used only as a last resort. In assessing whether or not a school should be allowed to remain a direct lender, it is important to assess the quality of the school's present loan administration program and the trend in the default rate. To a great extent, the occurrence of default can be traced to poor student attitudes and improper administrative practices from many years earlier. The decision by the USOE to limit or terminate the school's lending authority does not affect these past students and, when a school turns down many applicants who would attend, does not significantly affect the school itself; rather, the impact falls primarily on the student applicant who will need to seek other financial resources.

APPENDIX A

QUESTIONNAIRE USED FOR CURRENT IN-SCHOOL
BORROWERS OF DIRECT FISLP LOANS

QUESTIONNAIRE USED FOR
CURRENT IN-SCHOOL BORROWERS
OF DIRECT FISLP LOANS

This appendix contains the questionnaire used for the in-school borrower survey (as discussed in Chapter III) of the proprietary schools and institutions of higher education

IN-SCHOOL BORROWER QUESTIONNAIRE

(To Be Used For Each In-School Student Borrower Interviewed)

IDENTIFICATION

1. Your Name _____
2. Current Local Address _____

3. Telephone Number _____
4. Hometown Address _____

5. Course of Study _____
6. When did you begin the program? _____
Month Year

*

*

*

*

*

STUDENT QUESTIONS

1. Which reasons were important in your decision to attend this school rather than another school?

	<u>Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
Reputation of the school for training	—	—	—
Prospects of obtaining employment after graduation	—	—	—
Ability to get the loan	—	—	—
Near my home	—	—	—
Friends were also attending	—	—	—
Other (specify _____)	—	—	—

2. In order to obtain the loan, did you have to:

Yes No

Show that you have adequate funding from other sources for completing the program?

Obtain rejection for a student loan from a bank or lending institution?

3. How soon after graduation (or leaving school) do you have to begin to repay your loan? _____ months

4. Are you (or your spouse) personally responsible for repaying your loan?

Yes _____

No _____

If not, who is? _____

5. Which of the following reasons are valid for deferring payment on your loan?

Yes No Don't Know

Graduating and going on to another school

Unemployment for the first 12 months after graduation

Employed but with inadequate income

Too much other debt

6. Has the school indicated what your monthly payment will be upon graduation?

____ Yes

If yes, do you remember the amount?

____ Yes _____ per month

____ No _____ No, do not remember

7. Do you have to notify the school when you change your address?

Yes No Don't Know

While you are an in-school student

After you leave school

8. Do you feel that you are well-informed on the terms and obligations of your loan?

☐ Yes
☐ Somewhat
☐ No

9. Since you received the loan, have you had any questions about it?

☐ Yes If Yes, were you able to get satisfactory responses from school?
☐ No

☐ Yes
☐ Somewhat
☐ No

10. Do you feel that you were pressured to enroll by:

	Yes	Somewhat	No
Parents (or guardian)	☐	☐	☒
School officials	☐	☐	☐
Others (specify _____)	☐	☐	☐

11. Prior to enrollment, do you feel that you were adequately informed about:

	Yes	Somewhat	No
Total cost to complete the program	☐	☐	☐
Length of time it would take you to complete the program	☐	☐	☐
Content and difficulty of the courses	☐	☐	☐
Employment opportunities for persons who complete the program	☐	☐	☐

12. For admission to the school, did you have to pass an aptitude test? _____

13. Prior to enrollment, did the school state that it would be easy for you to find a job related to your training?

☐ Yes If yes, was this an important consideration in your decision to enroll?

☐ Yes, it was very important
☐ It was of some importance
☐ No, it was of little importance.

☐ No

14. Is the size of the loan appropriate for your needs?

☐ Yes
☐ No, it is too large; received \$ _____ more than I needed.
☐ No, it is too small; received \$ _____ less than I needed.

15. Would you have enrolled even if you had not received a loan?

☐ Yes, I definitely would have enrolled
☐ I probably would have enrolled
☐ I probably would not have enrolled
☐ No, I definitely would not have enrolled.

16. Have you received other loans or scholarships?

	<u>Yes</u>	<u>No</u>
Other loans	☐	☐
Scholarships	☐	☐

17. Are you satisfied with the training you are receiving?

☐ Yes, I am generally satisfied
☐ I am only somewhat satisfied with the training
☐ No, I am generally not satisfied with the training

18. What types of job placement assistance does the school provide?

	<u>Yes</u>	<u>No</u>	<u>Don't Know</u>
Arrange interviews with employers	☐	☐	☐
Provide names of employers who have job vacancies	☐	☐	☐
Provide career guidance	☐	☐	☐
Other (specify _____)			

DEMOGRAPHIC DATA

1. Age _____

2. Sex _____

3. Race: _____ White/Caucasian

_____ Black/Negro

_____ Other:

_____ American Indian

_____ Mexican/American

_____ Puerto Rican

_____ Oriental

_____ Other (specify _____)

4. Marital Status:

_____ Single, never married

_____ Married

_____ Separated

_____ Divorced

_____ Widowed

Number of persons dependent upon you for most of their financial support? _____ (exclude yourself)

5. How many years of schooling had you completed prior to enrolling in this program? (Round off to the nearest 1/2 year.) _____

_____ Highest grade of high school (i.e. grade 10, 11, or 12 completed)

If less than grade 12, did you obtain a GED equivalency? _____

_____ Years at a vocational or technical school

_____ Years at a junior college or community college

_____ Years at a 4-year college

_____ Years of other schooling (specify _____)

OTHER COMMENTS

Are there other comments that you would like to make?

(We thank you for your assistance)

APPENDIX B

**INTERVIEW GUIDE USED FOR REVIEWING
THE ADMINISTRATIVE PRACTICES OF THE SCHOOLS**

INTERVIEW GUIDE USED FOR REVIEWING
THE ADMINISTRATIVE PRACTICES OF THE SCHOOLS

This appendix contains a list of the questions that were used in the survey of administrative policies and procedures at the proprietary schools and institutions of higher education.

OVERVIEW

Chapter IV discusses the administrative policies and practices used by proprietary schools and institutions of higher education that are direct lenders in the FISLP. The qualitative information provided in the chapter was based on personal interviews with school administrators. An interview guide was used by the study team to ensure that consistent questions were asked during the visits.

INTERVIEW GUIDE

The questions asked during the school interviews focused on the nine categories discussed below.

Involvement In The FISLP

- What are the primary reasons for a school's involvement in the FISLP?
- Has the school attempted to encourage local bank participation in GSL programs?

Recruitment Methods

- How large is the school's recruiting staff?
- What is the role of school recruiters? Do they, for example, respond to inquiries and respond to prospective students at their homes?

- What media are used to advertise the school's program, and what media are most effective?
- How are recruiters compensated?
- How are prospective students informed about the cost, length, content, and difficulty of the school's programs?

Admission Policy

- What criteria (e.g., high school diploma, aptitude test, or personal and financial references) are used to assess the eligibility of a prospective student?
- What are the most frequent reasons for denying admission?
- Are applicants required to pass an admissions test?

Loan Approval Policies

- Does the school have a stated loan approval policy?
- Are potential FISLP borrowers required to show personal or financial references? Are the references contacted?
- Do potential borrowers need to have adequate financial resources to complete the school's program? How is this determined?
- What are the most frequent reasons for denying FISLP loans at the school?
- How is a student informed about the rights and responsibilities associated with an FISLP loan?
- Are personal interviews used?

In-School Loan Administration Methods

- What office administers the loans of in-school students?
- How are loans disbursed (e.g., sent directly to the student), and how often do disbursements occur?
- Is there a specific person on the school staff designated to respond to student questions concerning FISLP loans? How are students made aware of this resource?
- What records are maintained for in-school student borrowers?
- What procedures, manual and/or computerized, are used to maintain the current address of in-school borrowers?
- What significant policy or operating changes have occurred in recent years related to in-school loan administration at the school?

Refund Policies

- What is the policy for refund of tuition and fees to students who withdraw?
- What criteria are used to determine when the withdrawal occurred and the size of the refund, if any, that is due to the student?
- Is attendance taken in all classes?
- How are dropouts notified that a refund is due, and what approximate proportion of dropouts does the school reach?

Career Placement Activities

- What types of career placement assistance (e.g., employer interviews and overall career guidance) does the school provide?

- What type of job vacancy information is available, and how is it maintained?

Out-Of-School Loan Administration Methods

- What office is responsible for administering the loan portfolios of out-of-school borrowers?
- Are personal exit interviews conducted for all students? What percentage of graduates and what percentage of dropouts participate?
- How is contact maintained with borrowers during the grace and deferral periods?
- What procedures are used for maintaining the current addresses of out-of-school borrowers?
- What office is responsible for collections?
- When is a loan considered to be in default?
- Are lawyers or collection agencies used for collecting from FISLP borrowers?
- When are claims for FISLP defaults submitted to USOE?
- What policy or procedural changes have occurred in recent years affecting the management of out-of-school borrower portfolios?

Servicing, Warehousing, And Sale of Loans

- Does the school use an outside servicing organization for in-school and/or out-of-school loans? Has a servicing organization been used in the past?
- What is the cost for servicing, and how is it calculated?
- What is the policy of the school concerning the sale of FISLP loan portfolios to third parties, such as the Student Loan Marketing Association?

- Who administers the loans once a sale occurs?
 - What criteria are used to select loans for sale?
 - What are the advantages and disadvantages of loan sales?
 - Are repurchase agreements used?
 - What is the policy of the school concerning loan warehousing?
 - Who administers loans that are warehoused?
 - What criteria are used to select loans for warehousing?
 - What are the advantages and disadvantages of warehousing?
- 

APPENDIX C

**INITIAL REGRESSION MODEL ANALYSIS RELATING
BORROWER CHARACTERISTICS AND REPAYMENT STATUS**

INITIAL REGRESSION MODEL ANALYSIS RELATING BORROWER CHARACTERISTICS AND REPAYMENT STATUS

This appendix contains the initial analysis using multiple regression models on the borrower characteristics and repayment status data (as discussed earlier in Chapter V).

METHODOLOGY

Repayment status was defined as the dependent variable, and the following independent variables were then used in a stepwise multiple regression:

- Graduation/withdrawal status
- Age*
- Marital status*
- Sex
- Race
- Cumulative amount of FISLP loans from that school
- Independent/dependent financial status*
- Adjusted gross income*
- Various interaction variables representing combinations of the eight variables above.

The multiple regression application that was used employs an automatic search technique called "Maximum R^2 Improvement." Under this approach, the regression program looks for the "best" one-variable model, then the best two-variable model, then the best three-variable model, etc.:

*Status at the time the first loan was obtained.

- First, the best one-variable model is determined on the basis of the highest R^2 statistic.
- A second variable is then added to the model by maximizing the R^2 statistic.
- Each of the two variables in the model is then compared to each variable not in the model. Each comparison consists of deciding if replacing the variable in the model by the one not in the model would result in an increase in R^2 .
- After all the possible comparisons are made, the switch that most improves the R^2 is made.
- Comparisons are made again, and switches continue until no switch would improve the R^2 . This results in the best two-variable model.

A third variable is then added, and the process is repeated at the three-variable level. Additional variables are added until the total process is completed.*

We further limited the selected model to the maximum number of variables such that the coefficient values are statistically significant at or above the .15 level. This added restriction tends to preclude the claiming of results that are not replicable.

INITIAL RESULTS

The best models for the group of nine schools, for the group of five proprietary schools, for the group of four institutions of higher education, and for each of the nine individual schools are listed on the following pages.

*SAS' Users Guide, SAS Institute Inc., Raleigh, North Carolina, 251.

These lists include the R^2 , the overall F-statistic, the name, coefficient value, and F-statistic of each included variable, and the intercept.*

When a single model is applied to the overall group of nine schools, the result is a four-variable model with an R-square of .14. The R-square of the overall model is expectedly lower than that of each individual school model (discussed next) because a single overall model is being used to describe what are in fact nine different groups as if these groups were homogeneous.

The multiple regression models developed individually for each of the nine schools showed that a substantial amount of the occurrence of default was related to the student characteristics discussed earlier in this chapter. The R-square values found were .59, .27, .56, .34, and .31 for the proprietary schools and .57, .57, .27, and .28 for institutions of higher education.

The best models are listed on the following pages.

*The intercept and coefficient values constituting these models are predictive of the probability of default, assuming the probability of default for that school (or group of schools) equals 50 per cent. Thus, to apply any of the models in a predictive fashion, the values need to be adjusted (that is, divided by the actual default rate of that school or group of schools). Justification for this adjustment is by application of Bayes Theorem.

BEST MODEL FOR NINE SCHOOLS

R-square = .143

F-statistic = 19.12

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.330	-
Black student with a loan of at least \$1,600	.168	2.72
Graduated	.161	16.19
Black student	-.459	26.75
Independent status with income of less than \$3,000	-.111	4.36

BEST MODEL FOR FIVE PROPRIETARY SCHOOLS

R-square = .167

F-statistic = 7.65

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.423	-
Black student with income of less than \$3,000	.324	4.21
Black student with cumulative loans of at least \$1,600	.204	2.34
Less than 23 years of age	.124	3.43
Black student	-.514	15.74
Independent status with income of less than \$3,000	-.168	2.93
White student who graduated	.166	6.79
White student with cumulative loans of less than \$1,600	-.165	5.17

BEST MODEL FOR FOUR INSTITUTIONS
OF HIGHER EDUCATION

R-square = .234

F-statistic = 7.67

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.452	-
Black student with cumulative loans of at least \$1,600	.294	3.27
Graduated	.212	13.13
Black student	-.538	15.72
Cumulative loan amount	-.00005	4.56
Income of at least \$11,000	-.344	5.01
Independent status with income of less than \$3,000	-.166	4.75
White student with income of at least \$11,000	.315	3.27

BEST MODEL FOR
PROPRIETARY SCHOOL A

R-square = .599

F-statistic = 7.46

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	-.824	-
Less than 23 years of age	.434	11.77
Graduated	.777	19.16
Single marital status	.256	3.77
Black student	-.775	17.28
Income of at least \$11,000	-.514	11.02
Independent status with income of at least \$6,000	.256	3.75
Independent status with income of less than \$3,000	-.251	3.35
Dependent status with income of less than \$7,000	-.745	10.29
White student who graduated	-.512	9.07

BEST MODEL FOR
PROPRIETARY SCHOOL B

R-square = .279

F-statistic = 3.94

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.103	-
Less than 23 years of age	-.412	2.52
Single marital status	.477	2.43
Black student	-.658	5.97
Dependent status	.490	6.06
White student with cumulative loans of less than \$1,600	-.540	6.05

BEST MODEL FOR
PROPRIETARY SCHOOL C

R-square = .563

F-statistic = 7.94

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.759	-
Black student with income of less than \$3,000	.729	4.83
Less than 23 years of age	-.223	2.29
Black student	-.458	8.68
Dependent status with income of less than \$7,000 or indepen- dent status with income of less than \$3,000	.552	6.97
White student who graduated	.411	7.61
Income of less than \$3,000	-.375	16.75

BEST MODEL FOR
PROPRIETARY SCHOOL D

R-square = .340

F-statistic = 3.83

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.263	-
Black student with income of less than \$3,000	.482	2.69
Age	.021	2.44
Black student	-.487	9.68
Dependent status	.401	5.21
Income	-.00006	7.06
Income of at least \$11,000	.664	9.01
Dependent status with income of less than \$7,000 or indepen- dent status with income of less than \$3,000	.301	2.83

BEST MODEL FOR
PROPRIETARY SCHOOL E

R-square = .314

F-statistic = 4.95

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.301	-
Black student with income of less than \$3,000	.493	3.69
Black student who did not graduate	-.463	5.56
Less than 23 years of age	.447	6.26
Single marital status	-.341	3.97
White student who graduated	.301	5.84

BEST MODEL FOR INSTITUTION
OF HIGHER EDUCATION A

R-square = .573

F-statistic = 6.99

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.707	-
Graduated	.303	4.85
Black student	-.590	12.85
Dependent status	.436	10.36
Income	-.00006	10.23
Dependent status with income of less than \$7,000 or indepen- dent status with income of less than \$3,000	-.552	7.05

BEST MODEL FOR INSTITUTION
OF HIGHER EDUCATION B

R-square = .572

F-statistic = 9.36

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	-.619	-
Age	.036	21.74
Graduated	.217	2.90
Single marital status	.404	8.00
Loan amount	-.0001	13.21
Independent status with income of less than \$3,000	.219	4.26
White student who graduated	.288	3.37

BEST MODEL FOR INSTITUTION
OF HIGHER EDUCATION C

R-square = .270

F-statistic = 5.92

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	1.760	-
Age	-.039	8.77
Single marital status	-.299	3.61
Black student	-.402	6.10

BEST MODEL FOR INSTITUTION
OF HIGHER EDUCATION D

R-square = .286

F-statistic = 2.95

<u>Variable</u>	<u>Coefficient</u>	<u>F-statistic</u>
Intercept	.787	-
Black student with income of less than \$3,000	-.500	3.41
Age	-.028	4.32
Graduated	.262	4.10
Dependent status	-.448	5.68
Dependent status with income of less than \$7,000	.888	6.27
White student with income of at least \$11,000	.364	2.77